the MORTGAGE BANKER

JUNE 1952

Brown L. Whatley, president of Stockton, Whatley, Davin & Company, Jacksonville, Fla., nominee for MBA president for 1952-53. See page 26.

this issue ★

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SUBSIDIARY OF **UNITED STATES STEEL** CORPORATION

PRESIDENT'S *Column*

RE: S-3066

As THIS is written, Congress has before it S-3066, the FNMA bill which, if passed, would move our government further into mortgage lending. MBA has consistently urged slightly higher allowable interest rates on VA guaranteed and FHA insured loans in the belief that private capital would provide the needed funds for defense housing, veterans homes, etc.

Presently we find the level of savings at an unprecedented high with tremendous reservoirs of potential investment money in the hands of life insurance companies, savings banks, pension trusts and others. Interest rates in practically all investment fields have advanced and our own treasury department has recently increased the rate of return on certain of its bonds; but GI and FHA mortgages have remained frozen at levels that fail to attract the needed funds in a large part of our country.

Except in a few Northeastern states, GI loans are being sold at substantial discounts although spokesmen for the Veterans Administration continue to say these mortgages provide a satisfactory yield at par. In the proposed new legislation, our government seems to recognize this situation in that it directs FNMA to purchase these loans at near-market discounts.

Our government professes to have an anti-inflation policy but now urges the highly inflationary step of pouring more of Uncle Sam's money into programs that could and would be handled by private investment sources.

Political maneuvering may have confused some issues but I am convinced that MBA has made sound recommendations which, if followed, would accrue to the benefit of all concerned.

Aubrey M Costa

President, Mortgage Bankers Association of America

the MORTGAGE BANKER

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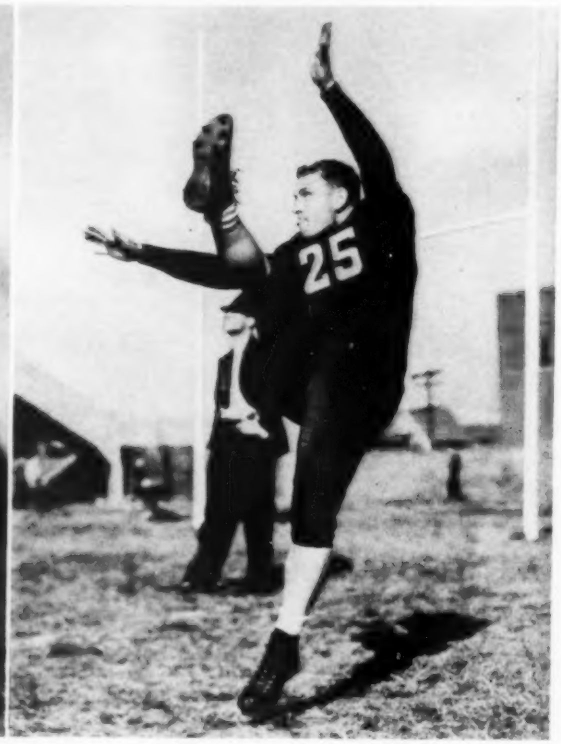
There is A Great Difference



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Slichter Sees No Severe Slump

Continued high defense spending, technological advances, no big downward price movement and other factors combine to create a pretty favorable outlook for the future of business, in opinion of this much-listened-to economist

By SUMNER H. SLICHTER

IS THERE any longer a serious danger of inflation?

Since March, 1951, the wholesale price level has dropped about 5 per cent and the consumer price index has risen only 2.5 per cent. The last year has been one of the most stable periods in the country's history.

The stability of the last year was achieved in the face of large increases in government expenditures, in business spending for plant and equipment, and in personal incomes and in spite of little increase in production. Government expenditures for goods and services rose by nearly $19 billion a year between the first quarter and the last quarter of 1951, business outlays on plant and equipment by $3.4 billion a year, and personal incomes after taxes by over $11 billion a year.

In the meantime, the output of goods changed very little. The index of industrial production has scarcely changed for a year—in February, 1952, it was slightly below February, 1951. Other kinds of production have risen only slowly.

» WHAT HALTED IT: Inflation has been prevented since March, 1951, mainly by four developments:

» The drop in personal expenditures for consumer goods;

» The decrease in expenditures by business concerns for inventories;

» The very slow rise in government defense expenditures after June, 1951, and especially after October; and

» The slow rise in the volume of personal incomes after October.

Has not the time come for the country to consider the possibility that the drop in expenditures on armament may bring about a more or less severe recession and to take the steps needed to avert a recession when spending for defense drops about the end of 1953 or sometime in 1954? One of the most respected investment services in the country recently expressed the view that "while it is theoretically possible that the country could make the transition from rapid rearmament to armed maintenance without serious business decline, the odds are heavily against it as a practical matter."

A substantial recession in the United States would be a most serious matter for the rest of the world. Other countries would be far less able to stand it than the United States. Furthermore, other countries have been led to believe if they forego some immediate rise in their standard of living in order to produce defense goods, they will soon be able to resume a rise in their living standards. The disillusionment that would be created by a world-wide recession in 1953 or 1954 would be a godsend to the propagandists of Communism.

» THREAT IS REAL: The possibility that the end of the armament build-up would produce a severe recession is real and it would be folly not to take steps to keep the transition from armament build-up to armament maintenance as smooth as possible. Nevertheless, the danger of a large drop in employment has, I think, been overestimated. There are two principal reasons for this conclusion. One is that the peak in defense spending will occur later and that the ultimate drop in defense spending will be smaller than has generally been anticipated. A second reason is that the demand for goods will be greater than most people seem to assume.

There are two reasons why the peak in defense expenditures will come later and the drop will be smaller than has been generally expected—China is gaining strength as a military power and the technology of war is developing rapidly. The significance of China's rise in military strength has received little attention from the American public. Indeed, the public seems to assume that the present regime in China is temporary and in the near future will be pushed out. There are no good reasons for accepting this wishful thinking. China's growth in military strength will require that the United States contribute on a substantial scale to an alliance of Pacific countries.

» PEAK IS LATER: The rapid development of the technology of war will also have the two-fold result of limiting the peak in war expenditures and also limiting the drop. It will limit the peak because by compelling postponement of war contracts while the design of goods is being improved and by causing equipment of the immediately available type to be purchased in limited quantities only. The same conditions which cause the peak in defense expenditures to come later and to be lower will also limit

the ultimate drop in defense expenditures. Each year there will be much new and expensive equipment that the armed services must have in order to be up to date.

My guess is that the peak in defense expenditures will be somewhere between $60 billion and $65 billion a year and that the maintenance level will be around $50 billion a year. This is very different from recent assumptions that the peak will be about $70 billion and the maintenance level about $40 billion.

When the drop in defense spending occurs, the demand for goods will be greater than is generally expected. Investment in industrial plant and equipment will undoubtedly be below the present high levels, but the drop will not be large. It is not generally realized on what a huge scale industrial research is now being done. Professional personnel in private industrial research laboratories have increased from 54,000 in 1946 to 70,000 today. Although the defense program has interrupted the training of many young scientists and engineers, it has stimulated the development of technology in many ways. It makes insistent demands for metals that can withstand intense heat; it requires that parts be made to new standards of accuracy; it demands the production of more minute parts than industry has ever made; it accelerates the substitution of electronic controls for mechanical controls; and it brings about the making of more reliable electronic equipment than has ever before been produced. The advances that are now occurring in technological "know-how" mean changes in methods of production, changes in the design of goods, and the development of new kinds of goods. All of these developments will provide demand for industrial plant and equipment, especially industrial equipment.

>> SCHOOLS, KIDS, CARS: The drop in defense expenditures will see some rise in outlays of state and local governments because states and cities have been accumulating a large backlog of needs. A large number of children of school age will require many additional schools. More than half of the country's major highways are over 15 years old and are not adapted to modern traffic conditions. The inadequacy of present highways has been greatly aggravated by the enormous increase in the number of cars—passenger cars have increased from 27.4 million in 1940 to 40.2 million in 1950 and trucks from 4.6 million to 8.3 million. Large expenditures on roads, bypasses, bridges, grade separations, are inevitable.

Most cities have neglected to expand their water supplies to keep pace with the growing demand for water. The consumption of water has been growing, partly because of the rise in the use by industry as the output of goods has expanded, and partly because greater domestic use has been encouraged by the great increase in the number of water heaters and in the number of cars to be washed, and by the growing vogue of gardening. The country is also becoming aware that it has been polluting its streams and beaches, and it is belatedly waking up to the fact that its sewerage systems are either inadequate or out-of-date.

Slichter says "a substantial recession in the United States would be a most serious matter for the rest of the world. Other countries would be far less able to stand it than the United States. Furthermore, other countries have been led to believe if they forego some immediate rise in their standard of living in order to produce defense goods, they will soon be able to resume a rise in their living standards. The disillusionment that would be created by a world-wide recession in 1953 or 1954 would be a godsend to the propagandists of Communism."

The principal reason for believing that the drop in defense spending will not produce a severe recession is that individuals today are not spending a normal part of their incomes on consumer goods. Perhaps we do not know what ratio of expenditures for consumer goods to personal income after taxes is "normal," but the present ratio is low by past standards. The more that consumers save now, the more they will be able and willing to spend later on. Consequently, the present high rate of saving makes for future stability of the economy. When individuals return to their more or less normal habits of spending, the demand for consumer goods will rise by about $10 billion a year.

>> BUYING NORMALLY: What are consumers likely to buy when their spending habits return to normal? The answer to this question is "more of nearly everything." Nevertheless, there are some things that seem particularly likely to be in strong demand. Many people fear that the market for durable consumer goods is reaching a saturation point, but this does not seem to be true. The variety of durable consumer goods is constantly being expanded and the prices of many of these goods are being brought down to where millions of families can afford them. Only about 2 per cent of the wired homes have dishwashers, room air conditioners, clothes dryers, or waste-disposal units, and only about 9 per cent have freezers. There are great opportunities for replacing gas cooking with electric cooking because less than one-fourth of the wired homes have electric ranges.

The percentage of families owning automobiles has gone up substantially in the last decade, but it still has a considerable way to go because less than 2 out of 3 families own cars. This means that there are about 15 million families that do not own cars. Furthermore, America has made a pretty good start toward becoming a nation of two-car families. The percentage of families owning 2 cars increased from 4.8 in 1948 to 11.1 in 1950. As people move to the suburbs, as the proportion of women at work continues to rise, and as incomes grow, the proportion of two-car families will increase. Changes in living habits, such as the large movement of urban-employed people to suburbs and outskirts, will stimulate expenditures on housing, house furnishings, garden appliances, and plants, and swimming pools.

>> DEFERRED SPENDING: The fact that consumers are deferring buying many kinds of goods because they are waiting for better models to be available indicates consumers will not be willing in 1954 to buy 1952-model automobiles or television sets. In other words, consumers will not do the sort of thing that they did in 1946 when they purchased prewar models in large quantities. If a rise in consumer spending is to avert a recession in 1953 or 1954, manufacturers must be ready to produce

real 1954 models—not simply dressed-up 1952 models. It will be difficult for manufacturers to do this. Nevertheless, if machine tools can be made available for civilian use in 1953, manufacturers can offer greatly improved models in 1954. Furthermore, the non-defense demand for machine tools in 1953 will help offset the drop in expenditures by the defense industries on plant and equipment in 1953.

Now let's look briefly at the long-run prospects for prices. My belief is that the long-run movement of prices will be slowly upward. Furthermore, I do not believe that the long-run upward movement of prices will be interrupted by the long periods of severe price declines which have been characteristic of price movements in the past. For example, between 1814 (just after the war of 1812) and 1849, the price level declined by over half. In the next 20 years the price level doubled, but between 1865 and 1896, the price level dropped by much more than half. Again, between 1920 and 1933, the price level dropped by more than half. The future will, of course, see periods of price declines, but these, I believe, will be shorter and less severe than the declines of the past.

>> WE'LL DO BETTER: What is the basis for this assertion? Partly because I believe that the country will do a better job of controlling inflation than it did in the past, partly because changes in the economy make it harder for the price level as a whole to go down, and partly because the government is pursuing policies that tend to bring about a slow rise in prices.

The country will do a better job of controlling inflation than in the past. Progress in this field is slow, but it is occurring. One can say with considerable confidence that the country will not tolerate the crude methods of government financing that were employed in the war of 1812, the Civil War, or even the First World War.

Changes in the economy make it harder for prices to drop. There are four ways in which a drop in the price level might come about. One way is through a drop in the prices of goods produced mainly by the self-employed, such as farmers and small businessmen. The self-employed differ from enterprises using hired labor in that their costs are fixed by contracts to a considerably less degree than are the costs of the concerns using employees. But the goods produced by the self-employed are a much smaller part of all output than they used to be. This is indicated roughly by the drop in the size of agriculture relative to other industries. Back in 1870, more than half of the gainfully employed in the United States were engaged in agriculture; today only about 12 per cent of the gainfully employed are in agriculture. Furthermore, the government will not stand by and let the prices of farm products fall without limit.

Slichter says "the drop in defense spending will not produce a severe recession because individuals today are not spending a normal part of their incomes on consumer goods. Perhaps we do not know what ratio of expenditures for consumer goods to personal income after taxes is 'normal,' but the present ratio is low by past standards. The more consumers save now, the more they will spend later. The present high rate of saving makes for future stability of economy. When individuals return to their more or less normal habits of spending, the demand for consumer goods will rise by about $10 billion a year."

>> WAGE CUTS: A second way in which a reduction in the price level might come about is through general cuts in money wages. Such cuts have never been particularly important—the non-agricultural wage level dropped 15 per cent between 1873 and 1879, about 12 per cent between 1920 and 1922, and 20 per cent between 1929 and 1932. These are the only important wage drops in over a century. Now the pervasiveness and strength of unions make it unlikely that substantial wage cuts will occur in the future.

A third way in which prices might be reduced is through a reduction in profits. The potentialities of this source of price reduction are limited because profits are such a fraction of the total selling price.

A fourth way in which prices might be reduced is by a cut in labor costs as a result of technological progress.

Nevertheless, I believe that the long-run movement of prices is likely to be upward. This belief rests upon three policies of the government that are not likely to be abandoned and that tend to raise prices. One is the policy of supporting the prices of farm products—the drop in these prices has been an important cause of cumulative deflation in the past. The second is the policy of encouraging workers to organize. I believe that the unions are likely to push up wages a little faster than technological progress raises output per man-hour. The third is the policy of the government intervention in halting recessions. If the government halts depressions before prices have dropped to the level at which the previous boom started, each boom will begin with a little higher price level than the previous one and the long-run movement of prices will be upward.

>> PRICES UP: When I say that I expect the long-run movement of prices to be upward, I am not saying that I expect the economy to be more inflationary than it has been in the past. I expect the swings of prices to be much milder than they have been in the last 150 years—the periods of deflation to be less deflationary and the periods of inflation to be less inflationary. But people will be more concerned about the long run movement of prices than they used to be.

An economy with a slowly rising price level imposes injustices on many people but it also has important advantages over an economy in which each recession is sufficiently severe to wipe out the rise of prices of the preceding boom. The economy with a slowly rising price level has more employment, more output, and a higher standard of living than the economy with the stable price level. Consequently, the prospect that the dollar will slowly drop in purchasing power is not to be viewed in alarm. When one is compelled to choose between two kinds of economies, each of which has certain disadvantages, one is naturally inclined to select the economy that produces the higher standard of living. Therefore, as between an economy with a stable price level and one with a slowly rising price level, the latter is to be preferred.

A Good Foundation for a Good

CORRESPONDENT-INVESTOR RELATIONSHIP

By THOMAS E. LOVEJOY, JR.
President, The Manhattan Life Insurance Company

WE, in our organization, have wondered for some time why some savings banks in their mortgage lending have done some of the things they do and why some have not done some of the things which they could do to their advantage. All of which prompts these questions — questions which aren't put to all savings banks because a good many are doing a very fine and effective mortgage lending job. It may be that these questions should be directed to the trustees rather than to those directly responsible for the mortgage activities of the banks.

We have, of course, been very conscious of the problems savings banks have had until recently in making mortgages because of the old limitations in the area in which they could lend. Because of such limitations, they had no alternative but to compete with one another for loans—which resulted in offering lower rates on mortgages and, in some cases, I regret to say, may have also required some stretching of the imagination in connection with appraisals to justify larger loans.

T. E. Lovejoy, Jr.

Fortunately, the increase in values in recent years, because of inflation, has in many cases covered up many potential mistakes which may have been made shortly after World War II.

However, several years ago these limitations as to the area in which they could lend so far as FHA and GI loans are concerned have been removed. Which brings up the first question: Why have not more of the banks taken advantage of this legislation, and aggressively sought to build up an FHA and GI mortgage portfolio of loans in the South, Southwest, Middle-West, and the West Coast? Ten years ago when our company began to build up a mortgage portfolio, we realized that it would be foolish to try to compete with the savings banks in New York; consequently I do not recall a single large conventional loan we have made in the New York Metropolitan area during the last ten years. We knew that we could do a lot better by getting away from such competition.

The savings banks that have taken advantage of such legislation permitting them to make FHA and GI loans in other parts of the country have not gone to their friends in other institutions and asked them for suggestions or advice as to how to go about it. Some institutions, over many years, have been making mortgage loans on a national basis and certainly in that time have acquired a certain amount of "know how" which could be of great help to any institution starting in the same field. Perhaps if this were done these banks could avoid some of the mistakes and pitfalls that others made.

In our own case, the Manhattan Life learned the hard way, but we soon recognized many of our mistakes and corrected them promptly. For instance, we started out by buying loans through FHA mortgage brokers. That was the easy way, and we learned a lot from it. But one day we woke up to the fact that we had mortgages in areas where we did not want them. It is our policy to lend money only in those states where we are engaged in the life insurance business—this is a basic policy, based on the theory that we lend money in the areas from which we collect our insurance premiums. All of our insurance salesmen are informed of this fact, so that they are in a position to tell prospective policyholders that any money their New York company

The reader should know the background of this piece of mortgage philosophy before reading it. Not long ago Mr. Lovejoy was asked to address the Savings Bank Mortgage and Real Estate Forum in New York. After talking it over with some of the organization's officials, he decided that he wouldn't give the usual polite speech too often heard at meetings of this kind but would, in a spirit of helpfulness, tell the savings bankers, in down to earth language, some of the things they have done in the mortgage field in recent years which, in his opinion, might have been done better. That's what he did and here is what he said—a remarkably frank expression of opinion from a life insurance president.

What will be of greatest interest to the greatest number of readers of The Mortgage Banker is his conception of what a good correspondent-investor relationship ought to be. Remember that he is talking to savings bankers but basic fundamental ideas such as he sets forth apply to any correspondent-investor relationship in the mortgage industry. You, as a correspondent—or as an investor—may have some reservations here and there, but you'll certainly want to think about the reasoning and philosophy back of every suggestion made.

collects from them is re-invested in their community.

Certainly we have nothing against FHA and GI mortgage brokers—I think very highly of them and respect their knowledge and judgment. They can, and do, provide a valuable service. I have told them that we think it is cheaper to go out and get our loans ourselves rather than have them do our foot work for us. However, that does not mean that some day we won't buy some loans from them or go to them and ask them to handle the sale of some loans for us.

And here is another question that comes to mind regarding the operations of savings banks and their purchase of loans in other areas of the country. In many cases, they are "one deal" buyers or "block" buyers and consequently are willing to pay a higher premium than the going market in order to get loans if the supply is less than the demand. This may be due to over-anxiety to put money to work. On the contrary, when the supply is in excess of the demand they are block buyers but at substantial discounts. In this case they are taking advantage of conditions which enable them to strike a hard bargain at the expense of the mortgage man who is in a jam.

We question if that is a good long-range policy. When you open up a new mortgage correspondent relationship, you should expect it to be a long term relationship, mutually profitable. When you squeeze the last dollar out of a deal and don't let the fellow make anything out of it, he will take it but he won't like it; and when there is a change in the market and loans are hard to get, he is going to go to the other fellow who allowed him to make a little money, and give him first crack at any loans he might have. In the same way, when you pay above the market for loans in order to get a block, he does not respect you; and he will still take care of the fellow who he knows is interested in his welfare, wants him to make some money, and expects to do business with him for a long, long time.

We know today that we could buy FHA and GI loans at a substantial discount — in fact, we have turned down many blocks of GI loans at 95 and lower and of FHA loans at below 99. Our reply to our established correspondents has been "no, we don't want to squeeze the last dollar out of this deal and we want you to make something out of it. Consequently, we will pay you the going market rather than squeeze you." We may be wrong, but it is our thought that such an attitude is appreciated, and in time, "bread cast on the water" this way will come back to us.

I Vote for the Quota System

By NORMAN H. NELSON

Vice President, The Minnesota Mutual Life Insurance Company, St. Paul

NOW, probably more so than ever before, the mortgage correspondent is more interested in the so-called allotment or quota system whereby an investor can reserve and set aside for his loan offerings a certain sum for the ensuing six months or year.

When an investor withdraws from the mortgage market it is a most disrupting development for the loan correspondent who relies upon him as his normal outlet for loans. It causes the correspondent endless worry and unexpected financing until the unaccepted loans are placed elsewhere.

Investors generally can, and some do, estimate and project their foreseeable investment income over ensuing periods of three, six or twelve months in such manner as to remain constantly in the mortgage field and, at the same time, protect their correspondents to whom they are largely indebted for present and past loan volume. An investment officer should gauge his Company's investment purchases so that mortgage funds are available at all times —although in varying quantities, perhaps—to his regular correspondents if he expects to hold them and, in turn, expects them to give him service.

A loan quota assigned by the investor to the correspondent, whether or not assigned tentatively, of, say, a half million dollars during a six-month period, provides that correspondent with an outlet for that amount of the total loans he originates. It enables the correspondent to anticipate in advance his sale of loans; it provides him with security against lack of outlets; it ties him closer to the investor; it enhances his bank credit and avoids warehousing. In other words, if a correspondent had such an arrangement with each of his investors—and he should have I think—his business would gain in stability and result in an orderly disposition of his product.

If I were a correspondent I'd want to be on a quota system with each of my investors.

Advantages accrue to the investor, too. It enables him to increase his volume in one section, gradually decrease such volume elsewhere, permitting of geographical distribution as he might like to have it. It eases his problem of excessive or insufficient backlogs of commitments, avoids peaks and valleys, permits better planning and enables him to remain constantly in the mortgage field as most investors would likely prefer to do.

And the quota system need have no effect on price changes as they may occur.

Another hazard of "block buying" is that you may suddenly wake up and realize that you have 70 or 80 or perhaps as many as 100 correspondents, none of whom is servicing more than $500,000 to $1,000,000 of loans for you. That means a lot of unnecessary work for your staff, a lot of correspondence and a lot of travel. Wouldn't it be better to pick the spots you want to go into, pick the correspondents you want to represent you, and then concentrate on those correspondents and areas? If you have a $50,000,000 mortgage portfolio, and 20 correspondents servicing an average of $2,500,000 of loans each, it will save a lot of work and travel for the savings bank's staff compared to the amount of work that would have to be done if the bank had 50 correspondents servicing an average of $1,000,000 of loans each. In the same way, when a correspondent is servicing $2,500,000 of loans for you, you are much more important to him than you would be if he were servicing a million or $500,000. "Block buying" may have been all right when the banks were switching out of government bonds into mortgages, but it doesn't seem a sound method in a normal investment program, particularly if it results in a large increase in the number of mortgage correspondents and in some cases may result in having more than one in some towns.

No Servicing Short Cut

Another practice that we have questioned, which has been going on recently, is one where, in order to move loans and to make the yield on his loans competitive, a correspondent has offered to service the loans for ¼ per cent servicing fee. We have even had them offer to service loans without a fee. We have declined to accept loans on either basis. We either turn the deal down entirely, or say we will take the loans at such-and-such a price with ½ per cent servicing. That's not charity and we are not being charitable; we believe that we will get no better servicing than we pay for, and consequently we wish to be in the position, when the going gets a little rougher and collections are difficult, to tell this correspondent that we expect the service we have been paying him for. Also, with the exception of one or two mortgage correspondents that I can think of, I do not believe that a loan can be serviced profitably at ¼ of 1 per cent. We feel that in the long run it would be better to pay ½ per cent servicing and let the fellow make a little money and put a little fat on his bones for slimmer times in the future.

The relationship between the institution and the mortgage correspondent is one where service goes both ways. It is just as important for the institution to give the mortgage correspondent service as it is for the mortgage correspondent to give the institution service. Prompt answers on submissions are vital to his operation—all he wants to know is where he stands. Are you interested, do you want to commit for the loans or do you want to turn them down? Then he is in a position either to arrange for his temporary financing or offer the loans to some other potential purchaser. It is unfair to keep him on a fence.

Another important service which the institution can render to the correspondent is to make prompt payment for the loans when the final papers are shipped in. I have heard of cases of an institution—and some

insurance companies are just as guilty of this as some of the savings banks—waiting as long as three or four weeks to pay for loans after the final papers had been shipped in. In fact, I have heard of some cases as long as two or three months. That is an imposition on the mortgage correspondent.

Now here are some of the things we do to help the correspondent plan his operation. We don't say that this is the final answer, but at least it is appreciated by our correspondents. Some time during December, we figure out approximately how many loans we expect to buy during the coming year. In arriving at this figure, we take into consideration estimated amount of run-offs of the mortgage portfolio because of amortization and prepayments—that can be pretty accurately determined—and runs around 10 per cent. Then we estimate the approximate amount of new funds we will receive during the coming year. I will admit that insurance companies have an advantage over savings banks in this factor. However, with this estimate, we determine how much funds we expect to put into mortgages and other outlets. Then we notify each correspondent that during the coming year he can expect us to take so many $100,000 of loans from him. We qualify that by stating that if we find later on in the coming year that we can take more loans we will so advise him.

However, with this preliminary allocation he is then in a position to plan his own operation for the coming year. It also benefits us in that we know so much of the funds we are going to have to invest during the coming year will be taken care of and our only problem in seeking investments is confined to that part of the estimated funds which will be put into other outlets. Another thing we try to do is to get the correspondents to spread out their offerings and deliveries through the year so that we will not have an overflow of mortgages coming in at any particular time during the year. This procedure may not be entirely adaptable to the operation of savings banks because they cannot forecast their increase in deposits. However, they can plan at least to the extent of the run-off on their portfolios within reasonably accurate estimates.

I said that we wondered why some of the savings banks did not ask other institutions about their experience in lending on a nationwide basis. What I had in mind is the time and effort that could be saved for the savings banks by doing this. They could tell you what states have favorable foreclosure laws and low foreclosure costs, what states should be avoided because of long redemption periods or high foreclosure costs. They can help the banks find mortgage correspondents who they know by experience do a good job. In other words, the savings banks could profit by the experience of these institutions and save themselves a lot of mistakes which the insurance companies learned the hard way.

There is another angle to this, and frankly, there is a little selfishness in it. We believe that a mortgage correspondent should have several mortgage connections. This will put him in the position where he will not be dependent upon any one or a limited number of outlets, and when such outlets are temporarily out of the mortgage market, he is left flat on his back. We do not like to have our mortgage correspondents depend on us that much. Consequently, we would like to help some of our correspondents find new connections so that they can build up the amount of loans they are servicing. This will put them on a sound operating basis and also not have them depend too much on us.

These are some of the questions I have asked when thinking about the mortgage market and the activities of the savings banks in recent years. As I said before, perhaps these questions should be asked of the presidents or trustees of the banks. Why am I interested enough to ask these questions? I have already mentioned one answer: we want to help our mortgage correspondents. But there is another answer, too, and that is, we believe free and intelligent competition is healthy, we like such competition. With more mortgage lending on a national basis, we will have to keep on our toes to keep up with the parade.

Make FANNY MAY *a* CENTRAL MORTGAGE BANK

It's a suggestion to think about. The industry has been debating the question of a central mortgage bank for a quarter of a century. Do we need it? Mr. Wolfe thinks the present dilemma in VA loans offers the opportunity to do something about securing some kind of central banking system within the industry and that Fanny May stands ready to be converted into just that. Mr. Wolfe, who is president of the First Mortgage Corporation in Detroit, first presented these ideas at the Spring Clinic of the Detroit MBA where they stirred up considerable interest. The Mortgage Banker's pages are always open to ideas and expressions of opinion about the industry. Here's an idea that every mortgage man can think about. What do you think about it? Let's have some discussion of this idea.

By BENTON B. WOLFE

MOST mortgage bankers will probably not agree with most of my statements here, but if my observations should help to accelerate some thinking about what may be some progressive steps which the banking fraternity, especially the mortgage banking fraternity, can take, then I believe there will be a future to VA financing.

First, how many investment institutions in the country who purchase VA loans are buying residential mortgages—or are they buying government insured paper? I believe that primarily they are buying government guaranteed paper, and the fact that it is represented in the form of mortgage security is merely secondary. The test is: what percentage of investment institutions in the country would buy VA mortgages if they were not guaranteed by the government? I think the answer is none.

Mortgage financing, especially on single residential dwellings, rests on the security involved. That, however, is not true in the VA mortgage. The basis for purchasing a VA mortgage is the backing of the United States Government in the guaranty.

Let's look back 75 or 100 years in the history of this country. The nation grew rapidly. The average individual, who kept expanding his business, started out with a small manufacturing plant and whether it was furniture, shoes or anything else, he went to a local bank and obtained a mortgage. Gradually his business expanded at such a great rate, that no single individual bank could take care of his needs. As a result, the individual business had to find another means of financing. Thus came into being corporate financing through bonds, debentures, preferred stocks, and other types of securities. This same little manufacturing plant, as it expanded, needed vast sums of money for further expansion. To obtain it, various forms of corporate securities were issued which enable not only a little bank, but a diversified number of investors to invest in its business.

The security was the plant but it was represented only by corporate pieces of paper. These pieces of paper are corporate securities, of one form or another.

Today, when Union Carbide or General Motors wants to borrow a hundred million dollars, it cannot go to a bank and obtain a mortgage. There isn't a bank in the country that has the facilities to give them that mortgage; so they issue a hundred million dollars of securities. The insurance companies and the banks and other investment institutions purchase these securities.

The building business, that is the construction of individual homes, grew and expanded with the growth of this country to the extent that we are now building, or capable of building, one and one-half million homes a year. Now, why is it necessary for the financing of these individual homes to be done in the same manner as it was done 75 years ago, when every other means of financing has progressively streamlined itself to meet each situation and each need? Does a plant of Union Carbide represent any more value or security than 10,000 or 15,000 individual homes built in any large community in this country?

If Union Carbide needs a hundred million dollars, it has no difficulty with its financing problem but if a community needs 10,000 GI homes for defense efforts, the financing for this creates a problem of such magnitude that Congress, the government agencies, and Senator Maybank's committee, have been working to find a solution for private financing—and so far failed. It was necessary for Congress to pass a law to have FNMA issue advance commitments to builders; and in many regions the problem has not yet been solved. Is it because mortgage financing for ten thousand homes entails a great deal of overhead in the origination, processing and closing of mortgages, and the duplication of records by the investment mortgage buyer, and continual duplication of records for the life of the mortgage?

There is one conclusion no one can dispute: the government guaranteed mortgage is certain and absolute security to the lender. The corporate financing paper is not and corporations, large or small, can have mismanagement with resultant depreciation of its indebtedness.

Why must we continue to insist on obsolete methods of mortgage financing for VA loans?

The greatest idea evolved in changing the form of mortgage financing was originally set forth by the framers of the original charter of FNMA. That document, as intended by the men who drafted it, had in mind that FNMA should not borrow money from the U.S. Treasury, but that FNMA should issue debenture bonds at the going rate and sell it in the open market to investment institutions. When I say FNMA, I only use it as a symbol — any organization which follows this law of operation can accomplish the purpose. It was only after FNMA was formed that the intent was changed. It began to borrow money from the treasury which tied up the government insured mortgage financing strictly with governmental functions and indebtedness. With very little thought and effort, we can now use FNMA, as suggested by Robert Pratt, president of Institutional Securities Corporation before the Round Table discussion of the Maybank Committee last February, to provide all the government guaranteed mortgage financing necessary in accordance with the economic needs of the government as coordinated with their defense program.

Mr. Pratt suggests that FNMA should issue debenture bonds, at the competitive rates necessary for sale in the market at any particular time. These debenture bonds which are backed by the government, because the security is government insured paper, would be eligible to be sold to proper investment institutions. To illustrate this a little more clearly, the Maybank Committee was concerned with the defense housing project at Savannah, Georgia, the atomic energy site, because they were not able to obtain $25,000,000 of advance commitments for financing to build these homes. As a result, the builders were reluctant to go ahead. The utilities in that same defense area issued debenture bonds for expansion facilities stating that it was necessary for them to expand their facilities in order to service the same defense housing project. The utilities had no trouble disposing of the debenture bonds at 3 per cent. They were sold on the market without any effort whatsoever. Is it any greater security for the investor to purchase the debenture bonds of the utilities? If the homes aren't used, the facilities won't be paid for. Therefore, the utility company will have a difficult time meeting its interest on the debenture bonds. On the other hand, if anything goes wrong with the housing project, the government guarantee on individual mortgages will assure FNMA that they will be able to meet the obligations of their debenture bonds.

Here is what Mr. Pratt said in his letter to the Maybank Committee on February 19, 1952:

"The Federal National Mortgage Association should acquire authority to issue advance commitments to purchase mortgages on new construction relating to defense and military installations, and should it be necessary at the time when the mortgages are deliverable pursuant to the related commitments, that the FNMA be prepared to purchase such mortgages with the proceeds of the sale of debentures issued by that corporation, rather than with funds appropriated from the United States Treasury.

"First, may I suggest that it would be reasonable for your Committee to conclude that mortgages on new construction are not readily marketable in volume at the present time, and, that the stresses and strains of the extraordinarily tight money market which currently exists in connection with all types of investments, are accentuated as they relate to mortgage investments on new construction, because such mortgages represent investments in *futures.*

"Therefore, to deal promptly with conditions as they exist now, I respectfully recommend the following: Let FNMA issue advance commitments to purchase the permanent mortgage loans which will result from the construction presently contemplated.

"Upon completion of construction, have FNMA acquire the funds to purchase the mortgages in accordance with its commitments outstanding, by the sale of its debentures to institutional investors. (As construction nears completion, the related mortgages, passing from the category of 'futures' into that of 'immediates', become more readily salable to private investors. Consequently, actual purchases of mortgages by FNMA should be much less in amount than that committed for originally.)

"When FNMA debentures are to be sold, let the maturities therof coincide with the approximate maturities of the mortgages.

"Let FNMA debentures bear an interest rate that will enable them to compete with other similar forms of investment paper. The volume of paper offered by FNMA would probably be fairly large and interest rates, therefore, would have to be adjusted to meet all market circumstances at the time of offering.

"Since FNMA presently has the legal power to issue notes, a test of the foregoing debenture proposal, on a relatively small scale, could be made readily now.

"The making of the test would provoke expressions of opinion by the banking and mortgage lending fraternity as to the wisdom of the undertaking by FNMA.

"A debenture operation of the type outlined herein merely changes the *form* of the mortgage *investment* and not its *substance*. The substance is the FHA or VA guaranteed mortgage. The form is the debenture which is a kind of warehouse receipt for merchandise stored in the mortgage portfolio of the FNMA.

"Debenture activities by FNMA would not be any more 'inflationary' than the creation of the mortgages to which the debentures would relate. Nor would they be any more so than the sale of high-grade corporate bonds which are being sold currently for plant expansion and other corporate purposes necessary to finance the defense effort.

"It is respectfully submitted that the debenture procedure could be used by FNMA as a mechanical device for the purpose of transferring to debenture holders, in liquid form, the investment benefits of FHA and VA guaranteed mortgages. Ultimately, its entire portfolio could be so transferred and the Treasury repaid."

VA Suggested a Bank

The same idea in another form was suggested by Mr. King of the VA, in his speech before the MBA Clinic in New York. He stated that there would be no stability in VA financing unless the mortgage bankers fraternity established a central mortgage bank. In my opinion, this would perform the same functions as the home loan bank does for the federal savings and loan institutions. If in existence today, such a central mortgage bank, which also could be FNMA, would probably alleviate any hardships that exist in the mortgage field for any of us today.

The money market will be affected depending upon whether the economic stability which has prevailed during the past few months will continue, or whether another spiral of inflation will take place, or whether the sellers' market will give way to a buyers' market. These conflicting movements in our economy can not be foretold as any two eminent economists speaking on the same subject will take opposite views. The mortgage bankers are like a sailboat in the middle of the ocean, at the mercy of the prevailing winds. We have seen how all of these fluctuating and conflicting changes of events in our economy affect our daily operations. How can any mortgagee who must of necessity commit to builders six to nine months in advance on new construction, know what will happen to the market when these mortgages are ready for closing?

What then, is the status of VA financing? We must assume that Congress intended that every GI who could qualify under the law has a right to exercise all that the GI Bill gave to them. Therefore, we must assume that veterans homes will be built, sold and financed until this obligation is fulfilled. This obligation can be fulfilled in one of two manners:

» Direct government financing which has been advocated and already in a small measure in effect. Prevailing sentiment of Congress, as evidenced by statements made by Senator Maybank's Committee, intimates that unless private industry undertakes to do the job to fulfill this obligation to the veteran, legislation for direct government financing on a large scale will be seriously considered

by our Congress. This is a simple answer, but not in keeping with our traditions or way of life.

» Independent financing by private enterprise. I did not use the word "individual" enterprise as in my opinion it no longer has the same meaning today as it did prior to 1929. I mean this in the sense that our economy is so vast that all large business whether industry, insurance, or banking is in a sense a "public trust." Each represents the accumulated savings of the millions of people who are depositors, stockholders or owners of insurance policies.

The building industry has the largest financing problems of any single industry in the country. Last year $16 billion in mortgages were financed, $8 billion in new construction. It is necessary to have stability in mortgage financing to maintain stability in the construction industry. This can be done with the creation of a central mortgage bank, or maybe a better name would be Federal Mortgage Bank. The present facilities and make-up of FNMA are such that it could be converted to a central mortgage bank. Such a central mortgage bank would of necessity warehouse and discount only government insured loans. This would eliminate the "feast or famine" requirements of investment institutions of government insured VA mortgages. This would also eliminate the necessity of the large insurance companies to commit ahead for "futures" for mortgages. It is said, at the present time, that the outstanding commitments, by insurance companies, for mortgages is over $4 billion. Mortgagees who deal mainly in government insured loans will then have this central mortgage bank to maintain stability in the government insured mortgage picture. This could all be accomplished by private money without having propaganda meetings requesting our senators and congressmen to continually give us a "shot in the arm" by appropriating more money to FNMA.

Industry Should Own It

This central mortgage bank will be in a better position to meet the fluctuating conditions of the money market and would stabilize interest rates, by purchasing these VA mortgages at premiums or discounts in order to meet the prevailing interest rate of its own government secured paper in the changing money market.

We should all be in a position to undertake and invest in the creation and operation of a central mortgage bank for VA mortgages which will fulfill the obligations to the veteran, prevent direct government financing, and maintain our tradition that private industry can do the job better.

CHANGES TO BE MADE IN MBA DIRECTORY

After the 1952 edition of MBA's Directory of Members was published, several member firms made changes in personnel or organization which should be included in the book during its two year use. For convenience, the complete listings for these firms are reprinted below. It is suggested that members clip them out and paste them over the listings shown in the directory.

The Detroit Mortgage and Realty Company's old listing is shown on page 70; the Southland Mortgage & Security Company on page 39; and the General American Life Insurance Company on page 84; the listing for H. B. Carroll appears on page 30 and should be replaced by the Pilot Life Insurance Company listing shown here.

★DETROIT MORTGAGE AND REALTY COMPANY
Corporation—Organized 1915
333 W. Fort St. Zone 26
Telephone: Woodward 3-3680
Officers in Charge of Mortgage Loan Operations: Robert H. Pease, President; Robert Kee, Vice President; James C. McKendrick, Vice President.
Other Departmental Activities: Property management, real estate sales, independent appraisal service, land contract servicing.
Territory: Detroit and suburbs.

★SOUTHLAND MORTGAGE & SECURITY COMPANY
Corporation—Organized 1950
1029 Second Avenue
Telephone: 7-6584
Officer in Charge of Mortgage Loan Operations: Dwight C. Moon, President.
Other Departmental Activities: Insurance, independent appraisal service.
Territory: 300 mile radius of Columbus, including Georgia, Alabama and Florida.

★GENERAL AMERICAN LIFE INSURANCE COMPANY
1501 Locust Street Zone 3
Telephone: Central 1700
Officer in Charge of Mortgage Loan Operations: J. G. Driscoll, Vice President.

★PILOT LIFE INSURANCE COMPANY
130-A Shoreland Building
Telephone: 82-7676
H. B. Carroll, Florida Mortgage Loan Supervisor.

Mortgage SERVICING *Department*

WILLIAM I. De HUSZAR, *Editorial Director*

INTERNAL CONTROL ...DO YOU HAVE IT?

Who Should Control the Trust Funds?

By THOMAS E. McDONALD
Director of Servicing and Accounting

RECENTLY, a representative of a bonding house commended MBA for stressing the importance of internal control at our regional clinic meetings throughout the country. The remark was made that it was most commendable for our organization, which is divorced entirely from the bonding business, to recommend a tightening of controls and procedures in the mortgage industry. Some of the suggestions or points I particularly stressed at the clinics are summarized below:

It is management's responsibility not only to itself but also to its investors and customers to safeguard the assets of the company and prevent and detect possible errors or fraud. The protection which a properly functioning system of internal control affords against human weakness is therefore of paramount importance. A good system of internal control not only reduces the possibility that errors or fraudulent attempts will remain undetected for any prolonged period but also enables management to place greater confidence in the reliability of financial and statistical reports.

The primary function of a cashier is to collect, record, and deposit the day's receipts intact. Additional duties such as reconciling the bank account and mailing delinquent notices should be assigned to another employee. If a reassignment of duties is not made, it becomes obvious that the cashier has complete control of the situation and through the means of lapping may peculate any sum desired. When there is sufficient volume, it becomes advisable for the mail clerk or accounting clerk to run a tape on the mortgage mail payments received prior to delivering them to the cashier. If the cashier treats counter payments and mail payments separately on her daily cash reconciliation sheet prior to making her daily deposits, it then improves the control on the cashier. In addition, the cashier should at all times be able to substantiate in detail any day's counter payments. Of course, pre-numbered receipts should be used at all times whether in book form or in a counter machine. As a final check, the cashier should at no time be permitted to mail out delinquent notices.

Complete and accurate accounting records are absolutely necessary for a successful business. I cannot recall how many firms I have visited wherein no controls were kept on the total unpaid principal balances or escrow amounts. Considering the few minutes it takes, it appears to me that we should at least maintain escrow control balances by investors. In this manner, we can reconcile to a control figure which tells us how much money we should have, and this figure is further substantiated by the bank statement. In many instances, a mortgage firm reconciles to a bank statement which indicates the amount of money in the bank account, but does not tell how much money should be in the bank account.

One of the most important steps toward better protection against errors and fraud is to see that the quality of the personnel is commensurate with their responsibilities. In small organizations, management naturally has to rely on the honesty of one or two employees who perform all the accounting duties. In larger organizations, this dependence on the honesty of the employees must be strengthened by the installation of some of the above mentioned internal controls. Although there is considerably more to discuss with respect to specific procedures followed in establishing a sound system of internal control, this information will be included in an article at some future date.

Since, during this past month, a representative of a bonding firm appeared to be concerned over the possibilities of embezzlement in a few large mortgage firms, I would like to stress an important point in this article. This representative expressed the viewpoint that in spite of the good work MBA has been doing to establish sound accounting principles in the mortgage industry, the seriousness of possible future losses necessitates that his bonding company take a more drastic action. Specifically, he inferred that his firm would request that various investors carrying his company's fidelity bond require all mortgage loan correspondents to forward their escrow money at the same time that they remit the principal and net interest on mortgage collections. He felt that

the transfer of escrow money from the loan correspondent to the control of the investor would minimize possible future defalcations.

It seems very important to take exception to this recommendation and suggest that investors contemplating changes in procedure in any way related to the above defer such decisions until after reading the article "Mortgage Bankers Association Blanket Bond" which will be printed in an early issue of The Mortgage Banker. After a great deal of work and study on the part of the Education and Research Committee, a master policy certificate-plan has been arranged to provide broader coverage at reduced cost and recognize the membership of the Mortgage Bankers Association as a separate class of risk. Presently it appears to be common practice for correspondents to carry fidelity bonds on their employees. In addition, life insurance companies and other institutional investors carry bonds insuring them against loss by reason of acts of their correspondents. It seems quite apparent that the duplicate protection afforded an investor even under the present system minimizes the possibility of losses occasioned by the mishandling of escrow funds by the correspondent.

Furthermore, may I emphasize that the recommendation of the bonding company heretofore mentioned is most expensive to both parties of the servicing contract. One large investor requires that their loan correspondents submit a monthly reconciliation of the escrow custodial account, and compares this reconciliation to the bank statement automatically forwarded by the bank each month. In addition, this investor requires that the mortgage firm be audited by a certified public accounting firm at least annually. Finally, the investor has an auditing staff that periodically visits their correspondents for purposes of test checking the accuracy of the records and determining that all procedures followed are in compliance with the servicing contract. To my way of thinking, the procedure outlined above is more than adequate to insure the proper handling of escrow monies. Requiring the loan correspondent to forward escrow money to the investor, it automatically increases the servicing cost for both the correspondent and investor alike. As an amusing point let me mention the case of one investor that followed this procedure of supposedly controlling the escrow money but nullified the advantages that should accrue to him under this system by writing a check payable to the loan correspondent at the time it became necessary to pay insurance and taxes. Actually, the checks should have been payable direct to the proper tax collectors or insurance agencies.

The main reason for writing this article is to keep you informed on recent developments which if pursued will result in additional expense to the mortgage loan correspondent, with absolutely no compensating advantages. It is also our belief that no material advantage would accrue to the investor; only more work and consequently a lower yield on mortgage investments. The solution to the problem of the proper handling of trust funds does not necessarily lie in the imposition of new and cumbersome restrictions on the servicing agent and investor but in the establishment of internal controls and the enforcement of good audit procedures. The correspondent, hand in hand with the investor, should strive to accomplish these ends.

>> WHAT'S BOTHERING YOU? What's your gripe in servicing? "Tell it to the chaplain" was the army slogan when you had a gripe or problem and no one else seemed to lend a sympathetic ear or helped solve the problem. Our mortgage servicing industry needs a similar outlet for pent-up aggravations caused by unnecessary requirements, uncooperative attitudes, repeated negligence, etc. In order to enable both parties involved in servicing to air their respective gripes, the Mortgage Servicing Department will devote a small corner to publishing those recurrent annoyances which could and should be eliminated.

If enough people have the same gripes, they cease to be gripes and become problems to be solved both by the investor and servicing agent. Some reforms and improvements will undoubtedly follow. Send your gripes to The Mortgage Banker and send as many as you wish—nothing is too trivial. We will print them here.

—W. I. De H.

★ YMAC ★

The monthly department devoted to the plans, activities and expressions of opinion within MBA's Young Men's Activities Committee

CECIL LAUGHLIN, *Director*

This Idea Proved a Real Time Saver in Processing Mortgage Applications

By STUART MICKLETHWAITE

Manager, New Loan Division, The Maccabees, Detroit

IN OUR organization we observed that a great deal of time was consumed in typing individual orders for, and making telephone calls for, credit reports, pictures, appraisals, surveys, etc. Consequently, we set out to find some better method for handling these matters. After a period of considerable trial and error we finally developed a form, in cooperation with a business form company, which has proved most successful. We have used it since 1949 and have found that it provides us with complete records and takes approximately half as much time as it previously did to process an application.

While it's simple, it is of such a nature that it doesn't readily lend itself to illustration here, but I'll be glad to supply interested members with a copy.

It is composed of eight distinct parts, namely, (1) order for photographs; (2) order for appraisal; (3) order for credit report; (4) order for mortgage policy commitment; (5) order for survey; (6) master form showing dates of all orders; and (7) the two index cards, one to be filed by name of proposed mortgagor and the other to be filed according to address of the property to be mortgaged.

The operation is quite simple. All the typist has to do is insert the form in the typewriter and with one typing operation completes all the required detail. The orders for the appraisal, photographs and credit report are removed by tearing along the perforated line at the top and placed in an envelope for mailing to the respective companies. The location card and name card which are on heavier paper are filed in the 3x5 file cabinet. The remaining part of the form is placed in the application file with the application, etc.

When the applicant advises that the terms of the commitment are satisfactory, we proceed to order the mortgage policy commitment and survey. This is done simply by removing the respective orders and mailing. All orders are noted on the master form which remains in the file.

We have found that our processing time has decreased materially since we have started using this form and a further advantage is that any individual checking the file can determine at a glance just when the various papers were ordered and approximately how much longer it will take before the mortgage is ready for closing.

Prior to our using this form, we found that the files would accumulate on the order clerk's desk whereas now, anyone receiving a phone call to order the mortgage policy and survey he simply removes the respective form and places it in the outgoing mail.

Also, there seem to be fewer errors as the typist is conscious that in one typing operation she is typing several orders and is establishing the records for pending applications. The establishment of the index cards at the inception of the application is a great aid in telephone calls.

Of course, conditions vary in various parts of the country and it might be necessary to make several adjustments in the type of form, etc., in order that it may be useful to another organization; but we have had so much success with this that we thought we would pass along its principle to other lenders.

NET INTEREST OF LIFE FIRMS 1951 WAS 3.18%

THE net rate of interest earned on invested funds of U. S. life insurance companies, before federal income taxes, rose to 3.18 per cent in 1951, the highest rate for several years, but still materially below the rate prior to the early Forties, the Institute of Life Insurance reports. The comparable rate for 1950 was 3.09 per cent.

"Almost the entire gain in investment earnings was absorbed by the greater federal income taxes," the Institute said. "The 1951 earning rate after federal income taxes showed a negligible increase to 2.98 per cent from the 2.97 per cent the year before. The federal income taxes incurred in 1951 were $125,000,000, about 75 per cent more than the $72,000,000 of 1950.

The 1951 earning rate was considerably below the corresponding rate in 1940. Had the 1940 rate prevailed in 1951, the investment earnings of the life companies would have been at least $150,000,000 greater than they actually were.

The increase in net earning rate in 1951 was attributable largely to portfolio changes by the companies, rather than to the important shift in interest rates which developed during 1951. This general upswing in interest rates was too recent to have had much effect on the year's earnings; the results will show up more clearly in future returns.

In some cases, the improvement in investment yield was substantial. Prudential, for example, reported the return on its assets, before taxes, rose from 3.10 per cent in 1950 to 3.28 per cent in 1951. Mutual Life of New York reported a gain from 2.95 per cent to 3.08 per cent, before taxes.

Even after the heavier taxes, a majority of companies reported an improvement. Prudential's yield, after taxes, rose from 3.03 per cent to 3.08 per cent, while Mutual Life's return went from 2.84 per cent to 2.89 per cent.

Holdings of life companies' government bonds at the end of the year

This *Wall Street Journal* table shows the improvement in interest rates in 1951 for some of the larger insurance companies. Few fire and casualty companies report the interest rate earned on their investments, and many companies do not indicate the interest rate earned after taxes.

	Rate Earned			
	1951		*1950*	
Company	*Before Tax*	*After Tax*	*Before Tax*	*After Tax*
Conn. Mutual	3.68%	3.52%	3.64%	3.52%
Continental Assur.	3.24	...	3.12	...
Gen. Reinsurance	2.67	...	2.52	...
John Hancock	3.08	2.89	3.00	2.89
Manhattan Life	3.13	...	3.09	...
Mutual Life	3.08	2.89	2.95	2.84
New Eng. Mutual	3.37	...	3.30	...
Northwest, Mutual	3.21	3.03	3.12	3.01
Phoenix Mutual	3.29	3.09	3.26	...
Prov. Mutual	3.20	3.01	3.11	3.00
Prudential	3.28	3.08	3.10	3.03
Springfield Fire	3.19	...	3.14	...
Std. Accident	2.19	...	2.12	...
Travelers (Life)	3.21	3.00	3.10	...

totaled $10,958 million—a decrease of more than $2 billion during the year. Mortgage investments on December 31 amounted to $19,291 million, more than $3 billion above the holdings a year earlier.

Holdings of bonds of corporations other than railroads and public utilities during 1951 rose nearly $2 billion to a total of $11,022 million.

Between 1945 and the end of 1951, the life companies' holdings of U. S. government securities declined from 46 per cent to 16 per cent of assets. At the same time mortgage holdings rose from 15 per cent to 28 per cent and the securities of business and industry increased from 25 per cent to 41 per cent.

PEOPLE AND EVENTS

MBA Past President Milton T. MacDonald has resigned his position as vice president of the Trust Company of New Jersey, Jersey City, to become president of T. B. O'Toole, Inc., of Wilmington, Del. Mrs. Charlotte M. O'Toole, widow of the founder, who served as president since Mr. O'Toole's death, tendered her resignation, and was elected a vice president. Mr. MacDonald had been a member of the board of directors since September, 1950.

In addition to his post as president and director, Mr. MacDonald will continue to serve as trustee for the Teachers Insurance and Annuity Association of America, New York.

M. T. MacDonald

Robert J. Adams

Paul Bestor, president of Trust Company of New Jersey, announced the appointment of Robert J. Adams as vice president in charge of the mortgage department. He succeeds Mr. MacDonald.

Gen. Raymond S. McLain has retired from the Army and returned to Oklahoma City to resume his position as president of the American-First Trust Company—that is, he tells associates, after he has caught up with his golf. He continues as a member of the Universal Military Training Committee.

T. S. Burnett has been elected to the newly-created position of financial vice president of Pacific Mutual Life Insurance Company. . . . Current anniversaries include the 50th for the West Hudson National Bank in Arlington, N. J., of which William J. Church is president.

COSTA SPEAKS BEFORE MINNEAPOLIS GROUP

An address before the Minneapolis MBA on June 17th by President Aubrey M. Costa will be another in the series of local association meetings which he has correlated with the most extensive Clinic schedule MBA itself has sponsored. On concluding the Clinic series with the final meeting in Los Angeles, he addressed the Kansas City Real Estate Board at their regular noon luncheon and spoke again that evening at the University Club before a group of mortgage men. Next stop was Birmingham, where he addressed the local group. He predicted some early relaxation of Regulation X and again emphasized that all that is needed in the present credit stringency in the mortgage field are equitable rates for insured and guaranteed loans. In Birmingham he was presented with the key to the city.

Following that, came the Spring meeting of the MBA board in Ponte Vedra Beach, Fla., followed by an address before the Oklahoma MBA.

What Banks and Other Investors Earn on Their Mortgage Loans

New study appears to indicate that the banks' gross on its mortgage portfolios was about the same as for life companies but that costs for latter group of investors is somewhat smaller

HOW do different mortgage investors do in their mortgage investing, what variations of success are there, in short, who does the best job? Some light is thrown on that subject in a new study just released, one with particular interest for banks and life companies. Data obtained from a sample study of 170 commercial banks indicate that, when compared with similar data for life companies, mortgage investment experience varies only narrowly from one type of financial institution to another.

Carl F. Behrens, who made the study of *Commercial Bank Activities in Urban Mortgage Financing*, released by the National Bureau of Economic Research together with Dr. R. J. Saulnier's comparison of the findings with similar results for life insurance companies, found that the gross income of the majority of the responding commercial banks on their mortgage loan portfolios ranged from 4.26 to 4.75 per cent of their average loan investment.

The range is somewhat higher than the gross income earned by life companies but costs, as an average of the average loan investment for a group of banks, was 1.35 per cent, and for a comparable group of insurance companies 1.2 per cent.

As of 1947, the ratios of net income to average loan investment of the commercial banks and the life insurance companies was fairly close—in the neighborhood of 3 per cent.

Commercial banks play a many-sided role in the real estate financing market. One aspect of that role, direct mortgage lending by banks for their own account, is a rapidly expanding one, Mr. Behrens found. In 1925 commercial banks held about one-twelfth of the mortgage debt on one- to four-family non-farm dwellings. The proportion increased to something over one-sixth at the end of 1949.

The banks which responded in the survey were nearly 75 per cent of all those with mortgage portfolios of $8,000,000 or over as of mid-1945, around 50 per cent of those with mortgage holdings of from $4,000,000 to $8,000,000, but only 1 per cent of those with mortgage portfolios of less than $4,000,000. The great bulk of urban mortgage lending by commercial banks is done by the largest banks. Banks with assets of over $100,000,000 did 40 per cent of this type of lending in mid-1950.

Some elements of bias in favor of the banks enter the comparison between the experience of the commercial banks and that of the life insurance companies in this field, Dr. Saulnier points out. For example, the responding banks are likely to be the better-administered ones. Also, the less successful banks were eliminated by liquidation or merger in the thirties, although no life insurance companies fell in that group. But these considerations do not rob the comparison of significance.

When loans made by insurance companies and banks over the period 1920-46 are classified according to the year in which they were orginally made, and the percentage of loans in each year which eventually went to foreclosure is calculated, the mortgage experience of the commercial banks is found to have been consistently better than that of the life companies, Dr. Saulnier contends.

For all types of property combined, only 3.2 per cent of the mortgage loans made by the commercial banks over this period eventually went to foreclosure. Of the mortgage loans made by insurance companies, 8.2 per cent were so terminated.

The relative severity of the foreclosure experience of the two types of institutions in different periods was markedly similar. The per cent of loans going to foreclosure of those made in the years 1925-29 was, in both cases, about four times as great as the per cent of those made in the period 1920-24. While the experience of these commercial banks on loans made in 1930-34 was considerably better than their experience on loans made in 1920-29, this was not true of the life insurance companies.

But the commercial banks seemed to do less well in the disposal of fore-

closed properties, Dr. Saulnier finds. Their losses on one- to four-family properties on loans originated in 1920-47 was nearly 24 per cent of the original amount of the loans foreclosed. For the life insurance companies, the losses amounted to something less than 10 per cent. On other properties the losses ran 36 per cent for the banks, 14 per cent for the insurance companies.

For both types of institutions, the loss ratios were highest where the time-span between the origination of the loan and the period of the property's disposal was the greatest. Also, for both types, loans made on a non-amortized basis had a higher loss rate than those made on a full or partial amortization basis, though the differences were considerably greater for the banks than for the insurance companies.

Loss rates on loans were calculated as the difference between the contract yield (the expected yield) and the realized yield. They were found to be lower on one- to four-family dwellings for both types of institutions than on all other types of property combined. In different periods, they were roughly similar for both.

Mr. Behrens found, as in the case of the life insurance companies, that the loss rates of banks were highest, on the average, where contract yields were lowest.

Considerably more than half of the amount of urban mortgage loans held by the commercial banks studied was secured by one- to four-family dwellings. The proportion for insurance companies is smaller but similarly concentrated. The great bulk of loans is of relatively small original amount, under $10,000, with a somewhat greater concentration of loans of less than $5,000 in the smaller portfolios.

The most striking influence of the federal loan insurance programs on the home mortgage market, Mr. Behrens notes, has been the virtual elimination of regional differences in interest rates. Regional differences in the proportion of insured and guaranteed loans to total loans outstanding may result, however, in some variation in average interest rates for portfolios as a whole. The variation is somewhat greater for banks than for insurance companies.

Mr. Behrens devotes his study principally to a factual description of urban mortgage lending by commercial banks.

In 1947 most of the loans made by the banks studied on one- to four-family dwellings were fully amortized and provided for a monthly schedule repayment. In banks with large portfolios, about 70 per cent of the amount of these were insured; for banks with medium-sized and small portfolios the respective percentages were 50 and 45.

Most of the loans had contract lengths of twenty years or more, loan-to-value ratios of 80 per cent and over, and interest rates of 4.0 to 4.9 per cent. Non-insured loans had distinctively less liberal terms, maturities of less than fifteen years, loan-to-value ratios of 40 to 69 per cent and interest rates from 4.0 to 6.0 per cent.

Only 15 per cent of all loan contracts made from 1920 to 1947 on one-family homes were modified, compared with 25 per cent of the contracts secured by other types of property. Sample loans with high loan-to-value ratios generally showed somewhat higher-than-average foreclosure rates. The foreclosure rate on fully amortized loans appears to have been slightly lower than that on partially amortized and non-amortized loans. Loans placed in the South seem to have had a higher-than-average rate of foreclosure, while experience in the West seemed to have been somewhat better than average.

Mr. Behrens' study is one of a series completed under the Urban Real Estate Finance Project of the National Bureau's Financial Research Program. It was made under a co-operative agreement between the Federal Deposit Insurance Corporation and the National Bureau and was supported by grants from the Association of Reserve City Bankers, the Life Insurance Investment Research Committee (acting for the American Life Convention and the Life Insurance Association of America), and the Rockefeller Foundation.

LIFE FIRM LOANS RUN AVERAGE OF 9.7 YEARS

AVERAGE turnover rate of urban mortgages with life insurance companies representing 80 per cent of life company investments of this type was 9.7 years in 1950, according to the Life Insurance Association of America. The turnover rate represents the average life of the mortgages, taking into account amortization and prepayments.

In 1946, a similar analysis of life company mortgage investments showed a turnover rate of just under 6 years.

While 33 per cent of the companies found a turnover rate in 1950 of less than 6 years and 27 per cent reported 9 years and longer, 74 per cent of the companies analyzed in 1946 reported a turnover rate under 6 years, and 7 per cent showed an average rate of 9 or more years.

PERSONNEL

In answering advertisements in this column, address letters to box number shown in care of the Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Illinois.

Office manager in charge of servicing and accounting mortgage loan company desires change to Southwest or West. 32, married, 2 children, College Graduate. Address Box 246.

Wanted by FHA approved mortgagee operating in three southeastern states, young man to head Credit and Collection Department who also wants to learn everything about the mortgage loan business. Apply Box 247.

Brown L. Whatley Nominee for President MBA 1952-3; W.A. Clarke Vice President

BROWN L. WHATLEY, president of Stockton, Whatley, Davin & Company, of Jacksonville, Fla., was named the official nominee for president of MBA for the 1952-53 term, it was announced by Aksel Nielsen of Denver, chairman of the nominating committee, at the regular Spring meeting of the Association at Ponte Vedra Beach, Fla. W. A. Clarke, president of the W. A. Clarke Mortgage Company, Philadelphia, was nominated for vice president. Mr. Whatley will succeed Aubrey M. Costa, president, Southern Trust & Mortgage Co. of Dallas. Other members of the nominating committee include E. R. Haley, Des Moines; Milton T. MacDonald, Jersey City; Byron T. Shutz, Kansas City, and John C. Hall, Birmingham.

Nominations for regional vice presidents in those six of the Association's 12 districts up for election in 1952 were announced and include:

William L. King, president, Boss & Phelps Mortgage Co., Washington, D. C.

Edward F. Lambrecht, Lambrecht Realty Company, Detroit, Michigan.

Stanley H. Trezevant, president, Stanley H. Trezevant & Co., Memphis.

Fred J. Freiner, president, L. E. Mahan & Company, St. Louis.

John F. Austin, Jr., president, T. J. Bettes Company, Houston.

J. R. Jones, vice president, Security-First National Bank of Los Angeles.

Nominations to the board of governors for terms expiring in 1956 include:

Harry C. Peiker, Feist & Feist, New York.

George B. Underwood, president, Underwood Mortgage & Title Co., Irvington, N. J.

D. Richard Mead, president, D. R. Mead & Company, Miami Beach.

G. D. Brooks, manager, investment department, The National Life and Accident Insurance Company, Nashville.

Jack D. Merriman, Merriman Mortgage Company, Kansas City.

Homer C. Bastian, president, The Fidelity Investment Company, Wichita.

Allyn R. Cline, president, Cline Mortgage & Trust Company, Houston.

W. A. Clarke

Stockton, Whatley, Davin & Company, the firm headed by Mr. Whatley, is one of the largest mortgage banking firms and estimated to rank third in the country in volume of mortgage loans serviced. He is president of State Investment Company and vice president of Telfair, Stockton & Company, affiliated companies. His company is the developer of a large number of outstanding residential subdivisions. Mr. Whatley is a member of the Rotary Club of Jacksonville and a former president of the Jacksonville Real Estate Board and the Jacksonville Chamber of Commerce. He has previously served as regional vice president of MBA and has been vice president this year. He is a member of the Ponte Vedra Club, the Florida Yacht Club, the Seminole Club and the San Jose Country Club.

W. A. Clarke, the nominee for vice president, has been prominent in the mortgage industry and in the Association for nearly a quarter

Allyn R. Cline

W. L. King

Edward F. Lambrecht

S. H. Trezevant

Fred J. Freiner

John F. Austin, Jr.

J. R. Jones

Harry C. Peiker

G. B. Underwood

D. R. Mead

G. D. Brooks

J. D. Merriman

Homer C. Bastain

century. He has been an Association member since 1931 and served on its board of governors and many committees during that period. In recent years, he has represented the Association before various congressional committees on matters pertaining to the industry. He was recently consultant to the division of selective credits in the office of real estate credit in the Federal Reserve System, administering Regulation X.

Mr. Clarke is a graduate of Swarthmore College, a former president of the Philadelphia Mortgage Bankers Association and is a member of the Self Help Housing Committee of the American Friends Service Committee. He is a director of the Guardian Life Insurance Company of America and the Paramount Fire Insurance Co. He is a member of the Union League Club of Philadelphia.

MBA MEETINGS PLAYED TO RECORD ATTENDANCE 1952

More mortgage men attended more mortgage meetings in the first five months of 1952 than ever before—considerably more. MBA meetings alone, since early January, have attracted well over 2,500, practically all of whom were from member firms. If it's a good idea for mortgage people—or people in any industry for that matter—to get together, look at and discuss their mutual problems, then the MBA program for the first half of this year certainly filled the bill.

MBA's three Mortgage Banking Seminars are coming up and the final event for the 1952-53 year will be the 39th annual convention in Chicago, September 28-October 2. The Seminars apparently will open to capacity attendance and as for the Convention, that too seems sure to set a new high record. Based upon advance reservations, attendance could easily reach 2,500. All of which may well serve as a reminder to make your plans now if you haven't already done so.

SAME STORY: NEW HIGH IN MBA MEMBERSHIP

Total MBA membership has again reached a new high record, standing now at 1,770, with 135 new members admitted so far in this Association year ending August 31, 1952, John C. Hall, Membership Chairman, announced. With nearly three months to go, there is every anticipation that the total will soon cross 1,800 mark for the first time.

Working in close cooperation with the Membership Committee has been the Membership Qualifications Committee headed by Homer C. Bastian. This group's work has developed into one of the major activities of the Association, since every new application is being thoroughly and carefully reviewed before approval.

Of interest to MBA members is the standing of the various cities of the country in numbers of MBA members as revealed by a compilation Mr. Hall made for his committee. Chicago leads with the most members, followed closely by New York, Detroit, Washington, D. C., St. Louis, Dallas, Philadelphia, Cleveland, Seattle, Birmingham, Los Angeles, Baltimore, Pittsburgh, Houston, Minneapolis, Kansas City, Mo.; Denver, Memphis, Atlanta, Milwaukee, Newark, New Orleans, Cincinnati, San Francisco and Louisville. Thus it is obvious that the size of the city is no indication of the extent of MBA members.

New members admitted include:

ALABAMA—Montgomery, Capbell-Howard & Cobbs, Jack Capell, 57 Adams Avenue.

ARIZONA — Phoenix, A. B. Robbs Agencies, A. B. Robbs, Jr., secretary-treasurer, 7 West Jefferson Street.

CALIFORNIA — Los Angeles, Security Title Insurance and Guarantee Company, H. O. Smyser, vice president, 530 West 6th Street.

CONNECTICUT — New Britain, The William D. McCue Company, William D. McCue, president, 300 Main St.

FLORIDA—Miami, Florida Title Company, John C. Vivian, secretary-treasurer, Pan American Bank Bldg.

FLORIDA—St. Petersburg, Knight, Orr & Company, Inc., R. L. Sample, manager, 804 Florida National Bank Building.

GEORGIA — Atlanta, B. M. Grant Company, A. M. Kennedy, president, 208 Grand Building.

KENTUCKY — Paducah, Bill Reeves, Realtor, William P. Reeves, Citizens Bank Building.

LOUISIANA—Baton Rouge, Gully and Poor, Realtors, Howard C. Poor, P.O. Box 1109.

MARYLAND — Baltimore, Chas. H. Steffey, Inc., John W. Steffey, vice president, 18 East Lexington Street.

MINNESOTA—Minneapolis, Suburban Properties, Inc., James R. Wyatt, General Manager, 332 Midland Bank Building.

NEW YORK—Jamaica, State Funding Corporation, J. A. Green, president, 168-15 Hillside Avenue.

NEW YORK—New York, Sonnenblick-Goldman Corp., Nathan Goldman, vice president, 100 East 42nd Street.

PENNSYLVANIA—Philadelphia, Pennsylvania Housing Finance Corporation, Frank F. Barker, vice president, 1528 Walnut Street.

TEXAS—Austin, The A. W. Henderson Company, A. W. Henderson, president, 1107 Capital National Bank Building.

VIRGINIA—Vienna, The Vienna Trust Company, John M. Sherwood, Vienna.

WISCONSIN — Milwaukee, Wisconsin Title Service Company, Wm. J. Hoyer, 261 E. Wells Street.

OBITUARIES

Frank H. Wolff, former member of the MBA board and a past president of the Texas MBA, died at his home in San Antonio. His death occurred on the eve of the opening of the Texas organization's 36th annual convention in Galveston. A native of San Antonio, Wolff had been president of W. K. Ewing Company for 20 years. He received his education at Washington and Lee University, Lexington, Va.

R. D. Buck Walton, vice president and general manager, American General Investment Corporation of Houston, passed away suddenly May 23. Mr. Walton was one of the most prominent mortgage bankers in Texas and formerly served as president of Texas MBA. Funeral services were held in Houston May 24.


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Great Debate About Rate

As many credit controls are abandoned and the government ups the take in its savings bonds, the FHA and VA rates remain the last places where the old idea of a proper interest rate prevails; increases are still unpredictable

THE great debate reached fever pitch in March and April and the rostrums at MBA Clinic meetings coast to coast were the origination points for sharply contrasting views of why the FHA and VA rates should and should not be raised and just what was the actual status of the market for mortgages. April, 1952 was a particularly active month for great events affecting mortgages—Fanny May ran out of funds and before month-end a bill was in the hopper to put some more money back. Regulation W was killed and a similar fate for Regulation X was expected. The government raised the ante in its savings bond program, not much but some; and it was quickly pointed out that, with this step taken, the frozen FHA and VA rates remained just about the last places where the higher interest rate level was not recognized.

The great debate about mortgage rates reached new highs at the MBA Clinics in Atlanta and Memphis, continued on at the Texas MBA meeting and those of other local mortgage associations, then was renewed on a vigorous scale at the New York conference and reached a climax at the Seattle and Los Angeles Clinics in late April and early May.

Tied in with the rate question, and of about equal importance, was the question of what to do about Fanny May. What view ought the mortgage industry take, what should be the Association's stand?

"Fanny May, if allowed to expand, is an octopus that will eventually destroy us," declared President Aubrey M. Costa at the Los Angeles Clinic, keeping well in mind that many members within the industry might individually favor a little more FNMA money right now but who, in a forthright mood, readily admit that the agency is of no long-term benefit to a healthy mortgage business.

Again, what should be our view about the proposed appropriations for FNMA over-the-counter purchases and the other principal provisions in Senator Maybank's new bill?

In the opinion of President Costa, as enunciated at the Los Angeles Clinic, our position ought to revolve on these four points:

» Oppose all appropriation for FNMA until FHA has, for a reasonable period, offered effective interest rates to encourage private investors into the field.

» If FHA offers effective interest rates and the program does not work, we approve appropriations for FNMA to purchase defense and military housing mortgages only.

» We oppose any program to provide additional funds for "over-the-counter" purchases of FHA or VA loans.

» We approve increased authorizations for FHA.

And it was on these four points which the Association presented its case at the hearings May 7th before the Senate Banking and Currency Committee, details of which have already been reported to members in the *Washington Letter*.

But nothing has been settled. The Senate has passed a cut-down version of the bill but the ultimate outcome is by no means clear. The market for mortgages remains spotty to say the least. And—as mortgage men who attended the MBA Spring Clinics found—the status of the mortgage business in one section of the country now can be something entirely different than in other areas. In New York and New England with their great concentrations of wealth, the improvement has been remarkable. There is a good par market for conventional loans. There is a par market for FHAs and the discount on VAs is smaller than elsewhere.

Government, however, is as adamant as ever against any increase in rates.

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SEEN AT THE NEW YORK CONFERENCE (opposite page): No. 1—Charles R. Van Anden New York Life Insurance Company, New York; Frank E. Denton, American Title & Insurance Company, Miami; Walter A. Scott, Scott and McCune, Inc., Pittsburgh; and Lindsey J. Rockwell, Mellon National Bank and Trust Company, Pittsburgh.

No. 2—Carton S. Stallard, Jersey Mortgage Company, Elizabeth, N. J.; Frank J. Lammerding, FHA, Newark; James J. Harrigan, Jersey Mortgage Company, Elizabeth, N. J.; and James H. Kidd, American Title & Insurance Company, Jacksonville.

No. 3—Jay F. Zook, Jay F. Zook, Inc., Cleveland; Franklin Barger, The Ohio Citizens Trust Co., Toledo; Carlton Dougherty, New York Life Insurance Co., New York; and Ray A. Murnen, Mortgage Investors Corporation, Toledo.

No. 4—Donald K. Brooks, Brooks, Harvey & Co., Inc., New York; John J. Scully, The Chase National Bank, New York; Thomas J. Kappock, and Fred P. Condit, Title Guaranty & Trust Co., New York; and DeBlois Milledge, American Title & Insurance Co., Miami.

No. 5—George H. Schmidt, The Title Guarantee Company, Baltimore; Oliver M. Walker, Walker & Dunlop, Inc., Washington, D. C. and John F. Austin, Jr., T. J. Bettes Company, Houston.

No. 6—Brown L. Whatley, Stockton, Whatley, Davin & Company, Jacksonville, Fla.; Mr. Walker, again; Donald B. Reagan, City and County Savings Bank, Albany; and John H. Scott, Scott Mortgage Co., Pittsburgh.

No. 7—Alvin E. Soniat and Pat L. Davis, J. E. Foster & Son, Inc., Ft. Worth; H. E. Peterson, The Life Insurance Company of Virginia, Richmond; and Jim S. Key, Key Investment Co., Midland, Tex.

No. 8—Eugene R. Jones, Rucker & Richardson, Richmond; K. A. Turner, Jr., Coleman A. Hunter and R. V. Hatcher, Atlantic Life Insurance Co., Richmond.

No. 9—Carl D. Hulsey and W. H. Hulsey, Garber, Cook & Hulsey, Inc., Birmingham; E. F. Blankenship and Paul J. Weinzierl, Realty Mortgage Co., Birmingham; and W. B. Phillips, W. B. Phillips & Co., Birmingham.

No. 10—Richard N. Symonds, Worcester Five Cent Savings Bank, Worcester; Wm. H. Crane, Realty Mortgage Company, Inc., Houston; W. A. Clarke, W. A. Clarke Mortgage Co., Philadelphia; B. W. Horner, National Mortgage Company, Memphis; Walter L. Greene, FHA, Washington; and Franklin D. Richards, FHA Commissioner.


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Speaking at our Seattle and Los Angeles Clinics, FHA Commissioner Franklin D. Richards said, as he had at New York, that:

"A great deal has been said about the mortgage market in the last two years, and much of it has been pretty pessimistic. All last year I heard that credit restrictions and the tight money market would cut new housing production to five or six hundred thousand units and substantially reduce the volume of existing construction financing.

"This year the gloom has centered around statements to the effect that the yield on FHA insured mortgages is not satisfactory and that the Defense Housing Program under Title IX is too risky. I do not think the facts warrant alarm.

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AND OTHERS SEEN AT THE NEW YORK CONFERENCE (opposite page): No. 11—Victor B. Gerard, Commonwealth Life Insurance Co., Louisville; Thos. K. Hartzler, Jr., Hartzler Mortgage Co., Columbus, Ohio; and W. E. Leland, Jr., Commonwealth Life Insurance Co. Louisville.

No. 12—Paul P. Swett, Jr., The Baltimore Life Insurance Company, Baltimore; Samuel E. Neel, MBA, Washington, D. C.; and Milton T. MacDonald, T. B. O'Toole, Inc., Wilmington.

No. 13—E. D. Schumacher, United Service and Research, Inc., Memphis; Eugene A. Harrell and Scott N. Brown, First Trust Company, Chattanooga.

No. 14—Thomas P. Coogan, Housing Securities, Inc., New York and assistant to the Secretary of Defense; and Joseph P. MacMurray, staff director of the Senate Banking and Currency Committee.

No. 15—Fred W. Orr, Fred W. Orr & Company, Cleveland; Jay F. Zook, Jay F. Zook, Inc., Cleveland; W. Robert McMurray, Commonwealth, Inc., Portland Oregon.

No. 16—Samuel E. Neel, again; R. Manning Brown, Jr., New York Life Insurance Company, New York; Charles V. Denning, New York Life Insurance Company, Atlanta.

No. 17—Ralph L. Price, Republic Insurance Co., New York; A. E. Landvoight, A. E. Landvoight, Inc., Washington, D. C.; and Russell H. Perry, Republic Insurance Co., New York.

No. 18—Thomas E. Lovejoy, Jr., The Manhattan Life Insurance Company, New York; and Dwight C. Moon, Southland Mortgage & Security Company, Columbus, Ga.

No. 19—Neal Hardy, deputy HHFA administrator, Washington, D. C.; Harry Held, Bowery Savings Bank, New York; T. B. King, VA loan guaranty director, Washington; FHA Commissioner Franklin D. Richards; Allyn R. Cline, Cline Mortgage & Trust Co., Houston; and MBA President Aubrey M. Costa.

No. 20—Robert Tharpe, Tharpe & Company, Atlanta; Stanley P. Fosgate, Lon Worth Crow Co., Miami; and J. Mark Stanley, Jr., City Mortgage and Loan Company, Miami.

"Despite all the pessimism in 1951, more than a million privately financed new residential units were started and an over-all total of approximately $16 billion of residential loans recorded. The present indications are that this year's gloom is as baseless as last year's. During the first three months of this year, which are conceded to be slow building months, starts averaged almost 80,000 units per month and at this rate another million-unit year may be in the making. Likewise, thus far this year, when mortgage money is said to be tight, approximately the same volume of residential mortgages have been recorded as in the same period last year.

"Insofar as the FHA is concerned, the picture follows the same pattern. In 1951 FHA insured mortgages on 335 thousand dwelling units, and applications filed in our field offices in January, February and March of 1952 were up more than 20 per cent above the same period last year. (78,800 new units and 123,800 total.)

"These are facts, and indications of future developments which make me feel confident that 1952 will prove to be a good home financing year. I believe my optimism is more realistic than the gloom of many mortgage bankers.

"There has not been a meeting of bankers or builders in the last year or so at which the proposal to raise FHA interest rates has not been discussed. Even though the industry was able to finance the start of over a million units last year and approximately $16 billion of residential mortgages were recorded, we are informed at every conference that the interest rate was and is too low to attract investment funds.

"I have repeatedly made the statement that I thought FHA should have an effective and equitable rate. By this I mean a rate that will draw money into the insured mortgage system, which, incidentally, is a completely voluntary system.

"One need only examine the present volume of insured mortgage

In New York (above), MBA President Aubrey M. Costa tells the Conference that what the FHA and VA programs need are equitable rates. Below, after the Conference ends, listeners query W. A. Clarke for his further views.


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At the Seattle Clinic (opposite page):

No. 1—H. G. Baldwin, Washington Mutual Savings Bank, Seattle; Boland Wilson, Citizens Federal Savings & Loan Association, Seattle; and J. Frank Jefferson, Seattle Trust & Savings Bank, Seattle.

No. 2—E. W. Lutz, General Mortgage Corp., Longview, Wash.; Felix M. Davis, Seattle-First National Bank, Seattle; Ernest Gohrband, United States National Bank, Portland.

No. 3—Richard Wright, Seattle First National Bank; Lowell M. Baker, Anthony, Baker & Burns, Spokane, and Abram B. Merritt, Federal Reserve Bank of San Francisco, Seattle Branch.

No. 4—Clifford C. Olson, Pacific First Federal Savings and Loan Association, Seattle; Fred J. Ahrens and Louis E. Keiler, Seattle-First National Bank, Seattle.

No. 5—James Eddington, Mortgage Finance Corp., Seattle; George D. Barclay, Mortgage Finance Corp., Tacoma; Leonard Downie, Mortgage Finance Corp., Seattle, and Dean Vincent, Jr., Dean Vincent Inc., Portland.

No. 6—Hugh F. Cheesman, Seattle Trust & Savings Bank, Seattle; Roger C. Anderson, Harry H. Olson, Inc., Seattle; Harry L. Shaw, Olympic National Life Insurance Co. Seattle; and Clarence A. Berg, Peoples National Bank of Washington, Seattle.

No. 7—Robert E. Blackbourn, Carroll, Hedlund & Associates, Inc., Seattle and Hart Rutledge, First National Bank, Bellevue, Wash.

No. 8—F. N. Thomas, Sun Life Assurance Co. of Canada, Portland, Ore. and R. C. Moller, Murphey-Favre Mortgage Co., Spokane.

No. 9—V. O. Stringfellow, Coast Mortgage & Investment Co., Seattle; and Kenneth J. Morford, Burwell & Morford, Seattle.

No. 10—J. D. Hone, Metropolitan Mortgage Company, Seattle; Herbert A. Landeen, Continental, Inc., Seattle and Ben J. Smith Jr., Seattle Mortgage Company, Seattle.

operations for evidence of the attractiveness of the FHA interest rate. As I said, in 1951 FHA insured mortgages on 335,000 units. During the first three months of this year our field

IN SEATTLE: Ross P. Williams, The National Bank of Commerce of Seattle, and George D. Barclay, Mortgage Finance Corp., Tacoma.

offices have received applications at a rate over 20 per cent higher than during the same months a year ago.

"From a volume standpoint it would appear that the FHA interest rate is attractive.

"The interest on home mortgages insured by FHA is 4¼ per cent and on project mortgages is 4 per cent. In today's market such yields are competitive with high grade bond yields, even after liberal deduction for servicing.

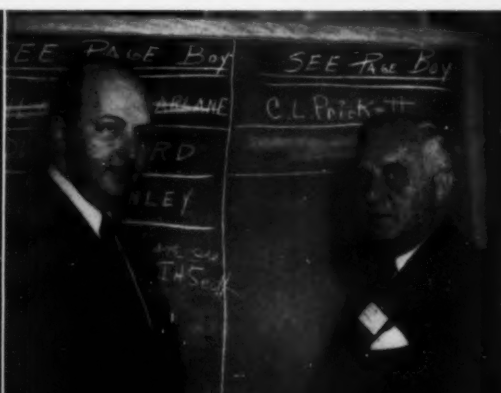
"There are, however, signs of a changing trend in mortgage investments, with banks and trust companies becoming increasingly interested in purchasing insured mortgages. New outlets have also opened up with pension fund investors. Here are substantial sources of mortgage money that are indicating by large purchases that the yield on FHA-insured mortgages is attractive."

T. B. King of the VA made the same vigorous defense for the 4 per cent guaranteed loans:

"We have studied carefully and conscientiously all of the arguments advanced by the advocates of a higher interest rate," he said. "We have recognized that many of the arguments presented carry a considerable degree of validity, although others do not, in our opinion. But after matching their aggregate weight against the counter arguments and factors which must be taken into account, they fall far short of proving that an increase in the GI 4 per cent rate is justifiable. We are left with the conviction that an increase in the interest rate would be premature and unwarranted in the light of the immediate situation. Concededly, GI 4 per cent loans are more difficult to obtain in many communities than in the peak period of 1950 when a very large flow of private capital, swelled by a flourishing 'Fan-

IN SEATTLE: Albert Balch and J. E. Anderson, both First Mortgage Company, Seattle.

IN NEW YORK (left): Lewis P. Grinnan, Jr. and A. G. Wallace, Lewis Grinnan Company, Dallas; Center, Walter J. Gill, Alexander Summer Mortgage Co., Newark, and Clyde L. Powell, FHA, Washington, D. C.; Right, H. E. Peterson, The Life Insurance Company of Virginia, Richmond, and Henry Beach, W. B. Leedy & Company, Inc., Birmingham.



SEEN IN SEATTLE: No. 1—Robert Keever, Vern Brice and C. R. Kelleran, White & Bollard, Inc., Seattle. No. 2—R. R. Jacobson, Bank of Eastern Idaho, Boise and MBA President Aubrey M. Costa, Dallas; center, Leonard Downie, Mortgage Finance Corp., Seattle. No. 3— A session in Seattle. No. 4—Irving S. Smith, Continental, Inc., Seattle; W. A. Clarke, W. A. Clarke Mortgage Co., Philadelphia; Thomas E. Lovejoy, Jr., The Manhattan Life Insurance Co., New York; Don Hedlund, Carroll, Hedlund & Associates, Inc., Seattle; and (seated) Frank D. Richards, FHA Commissioner; HHFA Administrator Raymond M. Foley; and T. B. King of the VA.

ny May purchase and commitment program, made GI 4 per cent loans an abundant commodity in many parts of the country.

"But the decline in comparison with the record year 1950 cannot obscure the fact that veterans are still able to obtain approximately 25,000 GI 4 per cent loans each month for the nation as a whole.

"Moreover, it is significant that recent appraisal requests for proposed construction have nearly tripled the low reached in the summer of 1951 to an average of more than 20,000 units a month in the first quarter of this year. The revival in appraisal request activity is a sure harbinger of an improved GI loan volume over the next few months. It is safe to conclude that the appraisal requests submitted in the past two or three months reflect the availability of private capital for housing projects which are now being put under construction.

"In fairness, we recognize that several qualifications must be borne in mind in evaluating the current rate of GI loan and appraisal request activity.

"In the first place, the GI loans now being originated are not distributed evenly by geographic areas. A rel-

IN LOS ANGELES: Left H. J. Mendon, California Bank, Los Angeles, and William A. Marcus, American Trust Company, San Francisco. Right, Wallace Moir, Wallace Moir Company, Los Angeles and John A. Davis, La Mesa-El Cajon Savings & Loan Association, La Mesa, Calif. and N. P. Thomson, North County Investment Corp., Oceanside, Calif.

SPEAKERS TABLES ACROSS THE COUNTRY: Top, left wing of the Los Angeles Clinic luncheon speakers table and below, right wing of same; two lower photos show both wings of the speakers table at the annual luncheon which the New York MBA holds in connection with MBA's New York Conference.

atively greater supply of money is coming from the northeastern part of the United States where investment capital is most heavily concentrated, and to some extent from the larger urban centers in other sections of the country.

"We also know that an indeterminate but undoubtedly substantial number of loans and appraisal requests involve discount arrangements of one kind or another, reflecting the sub-par market for GI 4 per cent loans which obtains — to a varying degree of discount—in many parts of the country. You can be assured, however, that we are doing our utmost to so effectuate our appraisal responsibilities that the veteran will not have to pay indirectly for such discounting through higher sales prices.

"But even after taking these qualifications into account, the current situation is certainly not grave enough to justify any step as drastic as an increase in the GI 4 per cent rate.

"Ultimately, of course, whether we are realistic in our estimate of the intangibles upon which we have predicated our defense of the maintenance of the 4 per cent rate depends primarily upon who has the correct analysis of future developments in the mortgage market. The evaluation of the significance of current trends and what they portend for the mortgage market 6 months or more hence holds the key.

"It is our conviction that inescapable influences are working toward a gradual improvement in the mortgage supply situation, including the mortgage supply available for VA guaranteed 4 per cent loans. Many will say that I made almost precisely the same prediction a year ago and that that prediction has not been confirmed in the market. Admittedly, the improvement in the market to date has hardly borne out my augury. The failure of that prediction to materialize, however, is traceable mostly to a matter of timing rather than to any fundamental error in analysis of the basic influences which are at work in shaping the future of the mortgage market. In restrospect, I believe we tended to underestimate the lapse of time need to offset the counterbalancing force of several important factors affecting the supply of mortgage money.

"Government bond yields—which we continue to regard as the only fair basis of comparison with the GI 4 per cent loan in terms of an alternative investment — are beginning to show signs of softening from the peaks reached last December or January. The average yield on long term bank-

(Continued page 43)

Milford A. Vieser Is Elected President of New Jersey MBA for Coming Year

Milford A. Vieser, vice president of The Mutual Benefit Life Insurance Company, Newark, was elected president of the New Jersey MBA at their annual meeting, succeeding Addison K. Barry of National Newark & Essex Banking Company. Other officers named were: first vice president, Leslie M. Steele, executive vice president of the Underwood Mortgage & Title Co., Irvington; second vice president, Francis R. Steyert, South Orange Trust Co.; treasurer, Frederic S. Bayles, vice president, Garden State National Bank, West Englewood.

Milford A. Vieser

Board Members Named

Harold O. Merz, secretary of the United States Mortgage & Title Guaranty Co., is a new member of the board of governors. Re-elected to the board are Philip N. Zinman, South Jersey Mortgage Co., Camden; Frederick Hoffman, Harmonia Savings Bank, Elizabeth; Peter F. Pasbjerg, Newark mortgage loan correspondent, and Benjamin Fairbanks, United States Savings Bank, Newark.

In his address at the meeting, Vieser said there was an urgent need for a complete review of the entire field of home building and mortgage financing.

"The nation is in the declining months of one of the greatest building and mortgage booms in our history. Home ownership has increased 54 per cent since 1940 and now stands at the highest per cent to population ever achieved by this country or any nation.

"The great building and real estate activity has been brought about to a large extent by the fiscal policies of our government, and the expansion of the insured mortgage program of the Veterans Administration and the Federal Housing Administration. In no area of our economy has the inflationary trend been as conspicuous as in real estate and its allied fields.

Carton S. Stallard presents testimonial scroll to retiring president Addison K. Barry in recognition of his services during 1951-52 term.

"Each period brings some new achievements and some new situations. The depression period of the 1930s brought great difficulties to real estate and mortgage investments. These difficulties, however, stimulated a review of our national mortgage practices and out of these problems came many long-needed revisions of our mortgage procedure.

"The present period has brought much good to American real estate and much progress to the field of realty finance. It has also brought forth new and serious problems.

"The influence of the federal government on real estate and mortgage loans has been gradual but sustained. In a period of less than 20 years our industry has gone from one of complete private enterprise to one of substantial socialization.

Under Tight Control

"Today we conduct the business of American real estate under a system whereby the government determines the number of houses to be built, the number to be private or public, the type of house, the size of the house and the amount of downpayment on purchase. Rents on almost all rental units are controlled and can be increased only by governmental permission. The government controls the volume of mortgage credit and exercises great influence on all interest rates and, in the instance of insured loans, the interest rate has been rigidly fixed by the government.

"Just as the problems of the depression stimulated a long-needed review of our business so should the problems of the inflationary period stimulate a review of our present practices and a re-examination of the effect of governmental controls and policies on American real estate. Some few regulations may still be needed to restrain inflation, but war-time need for real estate regulations need not become a permanent part of our life. I am an optimist, I am confident that we have the ability to preserve the gains we have made and to make continued betterment and progress for our citizens and for our industry without giving up our freedom."

AT THE NEW JERSEY MEETING, left to right: John W. Kempson, Newark Evening News; Frank J. Lammerding, FHA, Newark; James McCarthy, New Jersey Realty Title Insurance Co., Newark; Richard S. Whitesell, FHA, Newark; Arthur M. Muller, The Trust Company of New Jersey, Jersey City; J. Raymond Prideaux, president, New Jersey Association of Real Estate Boards, Morristown; Ralph W. Scheffer, Federal Reserve Bank, New York; Peter J. Fallon, FHA, Newark; back row: Leslie M. Steele, Underwood Mortgage & Title Co., Irvington, N. J.; Mr. Vieser; Dr. Courtney C. Brown, Standard Oil Company of New Jersey; Mr. Barry; Warren J. Lockwood, FHA, Washington, D. C.; Carton S. Stallard, Jersey Mortgage Company, Elizabeth, and Fredric S. Bayles, The Garden State National Bank, Teaneck. Dr. Brown addressed the meeting.

Foley Tells Detroit MBA Spring Clinic to Expect No Change FHA - VA Rates

Featured by the presence of federal housing and VA officials, from the topmost to managers and section heads of the local offices, Detroit MBA conducted the most successful in its series of spring clinics.

Raymond M. Foley, HHFA Administrator, returned to his home city following a tour over the western flood areas, to close the all-day meetings with an address at the dinner. He told the Detroit mortgage bankers that, whereas in January it appeared that there would be 800,000 housing starts in 1952, it now seems probable that the figure will approach a million starts, with sufficient private funds in the mortgage market to support that program.

He reiterated a frequently repeated statement that there is no present indication of a change in either the FHA or VA interest rate.

"The rate of 4¼ per cent for Title II or Title IX operations ought to be an effective rate," he said. "Nor is there any necessity at this time for a change in Regulation X."

Foley reaffirmed his belief that housing is the duty of private enterprise and that the duty of the government is to assist, and not supplant private enterprise. In lauding the housing progress of the past twenty years, he emphasized that it must be measured against what remains to be done, citing as instances of the latter, better homes, elimination of slums, better homes for our minorities ("what negroes need is not only housing but living room"), housing for the aged, larger homes ("we have too many 2-bedroom homes and 'efficiency homes' "), meeting the problem of dispersal—the fringes of our cities, and the real basic problem,"what is in my opinion the unnecessary high cost of housing."

Walter Gehrke, former MBA regional vice president, who presided, told the group that he considered Foley the man chiefly responsible for the success of FHA nationally. Gehrke referred to the early days of FHA in Michigan when Foley, as state director, undertook the job of selling FHA to lenders, builders and the public.

"It was a tremendous job of education," Gehrke said, "but its accomplishment, along with his sound administration, convinced the lenders; and the rest of the nation, observing the success in Michigan, gradually fell in with the program. For these and other reasons, Mr. Foley is ideally the man above all others to head the Housing and Home Finance Agency."

Benton B. Wolfe, president of the First Mortgage Corporation of Detroit, proposed that FNMA obtain funds through the sale of debenture bonds to institutional investors. Wolfe contended that a debenture operation of this type would merely change the form of the mortgage investment, and not its substance.

"The substance," he explained, "is the FHA or VA guaranteed mortgage." He proposed also a central mortgage bank to warehouse and discount only government-insured loans and "thus eliminate the feast or famine requirements of investment institutions, and also eliminate the need for large insurance firms to commit ahead for 'futures' for mortgages." *(For more complete report, see page 14 of this issue.)*

Fred C. Hasselring, acting loan guaranty officer of the Detroit VA Regional Office, defended the VA 4 per cent interest rate.

"While it is true that the interest rate itself has been unchanged at 4 per cent, it is not true that the GI loan itself, in terms of investment caliber or net yield, has remained static," Hasselring stated. "What is overlooked is that the intrinsic advantages of the GI loan to the investor have been greatly enhanced over the past several years in a number of important ways. One was the passage by Congress in 1948 of the incontestable clause. Another was the change liberalizing regulations covering the acquisition of properties so that the VA would accept a conveyance of property without requiring the holder to evict the occupants. The provisions relating to quality of title were liberalized whereby VA will take a title which is acceptable to informed buy-

(Continued page 43)

AT DETROIT MBA'S SPRING CLINIC: Participants, include, left, seated, George A. Bremer, Washington, FHA Zone Commissioner; Mrs. Stella Sheehan, FHA Detroit Office; George W. Zinky, Michigan State Director of FHA; Carl Whitney, Washington, Underwriting Supervisor, FHA. (Standing) Fred Sturm, FHA chief architect; William Stepek, Detroit Trust Co., moderator; and Harry M. Steffey, Assistant State Director FHA. Right: seated, D. M. Irwin of Detroit Branch Federal Reserve Bank; James Schwerin, examining section VA; Fred C. Hasselbring, acting loan guaranty officer, Detroit VA; Standing, Benton B. Wolfe, Detroit, First Mortgage Corp.; Leo F. Drotshagen, Detroit Peoples Federal Savings & Loan Association, moderator; and Arthur F. Bassett, President, Detroit MBA. The meeting was one of largest the Detroit Association has sponsored.

Meeting in Texas

ANY way you figure it, pod'ner, whether by just looking at the map or listening to what the natives say, Texas always comes out the biggest part of these United States. That's the viewpoint Texans have for export; and with them at home it's a firm conviction. Break down the big state of Texas into pieces and the mortgage piece is one of them. That's pretty big, too, as the foreigners—anyone from outside the state—who were lucky enough to get in on the 36th annual convention of the Texas MBA at Galveston discovered for themselves. The convention was pretty big—500 from 26 states and the District of Columbia. But mostly it was Texans from just about everywhere in Texas. The state has the largest regional mortgage association in the country and anything short of the largest regional mortgage meeting wouldn't do for any Texan, no suh.

A mortgage man might—just might—catch every MBA meeting over the country but he would still be shy an unforgettable experience for his collection if he had failed to catch up with the convention the Lone Star Staters put on every year. This year, Hotel Galvez, facing the Gulf of Mexico in quaint, picturesque Galveston was the place. There was, first of all, an abundance of the Texas brand of hospitality and an expertly put-together program, mixed with enough entertainment for any two other conventions. But, again, this is Texas where everything has to be bigger than anywhere else.

In any event, it was quite a schedule of things to do, see, hear and go to. The evening preceding the opening, the title insurance section of the Texas Title Association staked out their claim and delivered a party with the flavor and spirit of Texas. Following noon, there were cocktails and luncheons for both men and ladies—the former with MBA Washington Counsel Samuel E. Neel reporting from the capital, and the latter in Galveston's famed Balinese Room with cook books and all sorts of favors for the ladies. By that time the Texas spirit was really ready to go and it let go that night—with a big Gay Nineties Ball on Pleasure Pier. Evidences of it will be found elsewhere in this issue. Next day it was more of the same, cocktails and another big luncheon, this time with the ladies and men out to hear Clayton Rand, humorist and publisher of Gulfport, Miss., who was doing a repeat performance at this Texas affair. That night it was still more, another dinner and dance at Hotel Buccaneer down the beach a block from the Galvez. In between all this were smaller receptions and parties and superimposed over it all was a program about the mortgage business, a full and serious program.

Programs—almost any kind of program in Texas—get started with The Eyes of Texas. Carroll L. Jones of Corpus Christi, "The South Texas Songbird," led it and for the 36th time another Texas MBA meeting was off.

What was new, mortgage-wise, in Texas? Answer: judging from the tone and substance of the speeches and the discussion, the same things were new there that are new where you are. News of Fanny May's exhaustion of funds came as the convention was getting started and the opinion seemed to be that this was likely the end of that, except for Title IX, Wherry loans, etc. Interest

TEXAS OFFICERS and some MBA people. Left photo, Al Soniat, J. DuVal West, H. A. Crabb, G. R. Swantner, MBA President Aubrey M. Costa, MBA Vice President Brown L. Whatley and J. W. Jones. To the right, about the same group (with Samuel E. Neel, seated left, and Cecil Sisson, standing right) in fancy straws presented to them for Gay Nineties Ball.






NO IDLE MOMENTS AT TEXAS MBA MEETINGS: Top group, Fred L. Flynn presents Mrs. Alvin E. Soniat, wife of retiring president, with gift. Right, time out for some food at buffet dinner at Gay Nineties Ball.

Center group: Left, San Antonio at the Ball, Mr. and Mrs. Jesse S. Jones, Mr. and Mrs. James E. Klaver and Mr. and Mrs. A. H. Cadwallader, Jr. Right, Dallas at the Ball, Mr. and Mrs. Paul Crum, Mr. and Mrs. Dudley Brutsche and Mr. and Mrs. J. DuVal West.

Lower group: Left, Owen M. Murray deciding on what to eat; and right, the grand march with the Soniats and Crabbs in the lead.

perked up with reports of a better volume of mortgage funds in the East; but, as Texans were quick to point out, the concentration of investment funds is in the East and money would have to become considerably more available for it to reach their section of the country. There's a lot of money in Texas but the state is growing fast and constantly needs more and more financing for its growing industries and its housing.

Getting down to specific cases, here are some of the things Texas MBA members heard from the rostrum:

Said Dean G. Rowland Collins of the graduate school of business administration of New York University: "Don't put too much faith in these high personal savings . . . there is likely to be between 18 to 20 per cent less new investment funds in 1952 as against 1951. We have just completed a full year of 'inflationary lull.' If business really goes into a recession the government will act fast to prime the pump. . . . We may well find that these higher interest rates are only a temporary phenomenon . . . the economy is in a rather bad spot . . . too long we have operated on a spend as you go policy. . . ."




R. B. Patrick
". . . selective buying"

Alvin E. Soniat
"a good Texas year"

Franklin D. Richards
"rate is attractive"

G. Rowland Collins
"lull in inflation"

Said R. B. Patrick, financial vice president, Bankers Life Company, Des Moines: "The easy money and low interest rate era ended a year ago and there is nothing in the foreseeable future to make a significant change probable or desirable. Investors, though heavily committed for the remainder of 1952, nevertheless will have ample funds for creditworthy ventures. Treasury borrowing could be very inflationary if the new bonds are not sold extensively outside the commercial banking system. Any realistic program to accomplish this must include higher interest rates."

Said MBA President Aubrey M. Costa (for the first time since 1931 a Texan was speaking for the national MBA at a Texas MBA convention): "The defense housing program is seriously hampered because of the maintenance of a frigid freeze on the interest rates on FHA mortgages that were designed to provide financing for defense housing. It has been difficult to encourage funds into the market to buy the 4 per cent G.I. loans as the rates on other investment items competing for the funds have steadily moved upward. Present FHA and VA rates are not now effective because they are not competitive with the rates which investors can secure on other types of investments and they have a responsibility, whether they be life insurance companies, banks, savings and loan institutions or others, to invest their policy holders' or depositors' funds on the most advantageous plan, provided, of course, the security is considered adequate.

"Actually, a small increase in the interest rate would cost the borrower very little and would enhance his opportunity of owning a home. On an $8,000 25-year mortgage, an increase of ¼ of 1 per cent on the interest rate would only raise the monthly installments $1.12 and to raise the rate ½ of 1 per cent would make the monthly payment $2.24 larger. As a result of the failure of the government agencies, who have the authority to do so, to allow increased interest rates, a large part of the home financing is being done with uninsured mortgages for the reason that they can be handled at slightly higher interest rates and borrowers recognize there has been a slight increase in the value of money."

Said William F. Keesler, vice president, First National Bank of Boston: "We have had a lot of inflation and we have yet to see FHA and VA prove themselves under adverse conditions. . . . If we went back to the days of Fanny May forward commitments we would get a lot of unsound building, I am afraid. . . ."

Said FHA Commissioner Franklin D. Richards: "Another million-start year may be in the making and 1952 is going to be a good home building and home financing year. Title VIII has been outstanding in Texas—19 projects for $61,000,000 so far. Better housing per dollar is being produced in Title VIII than in any other program. FHA interest rate too low? In my opinion the rate is attractive."

Said Allen Brockbank, president of the National Association of Home Builders: "Give us the money and we will build the homes. Financing controls the amount of homes we build—more so than materials. This is a year for builders to stay close to shore—they should have their commitments, they should have their financing before they venture out . . . it is now being suggested that we give VA


Willing bartenders Robert L. Saville, of Lawyers Title Insurance Company, New York; and Sterling Adams of the Marine Midland Trust Company, New York. Right: George McIntosh, of McIntosh & McIntosh, Inc., Arlington, Va., preparing to draw his sword with Lennox Carruth of Republic Insurance Company, Dallas, seemingly unalarmed. All this at Gay Nineties Ball.

Thomas E. McDonald
". . . standardization needed"

William Keesler
"yet to prove themselves"

MBA President Costa
"an equitable rate"

Clayton Rand
"sad faces, gay behinds"

buyers plans and specifications. . . . I say that would be a foolish, impractical thing to do. . . . Public housing is a cancerous growth and I urge you to fight it for all you can. No city should be allowed to accept payments in lieu of taxes unless the people vote for it. We must end this tax exemption of public housing. . . ."

Said Norman H. Nelson, Vice President, The Minnesota Mutual Life Insurance Company, St. Paul: "You have been operating at peak periods for some time now, a somewhat dull period might be healthy . . . for 4¼ per cent loans the market will be good but not up to the standard of former years. There'll be a good market for conventional loans but little interest in VA loans. . . ."

Said P. N. Brownstein, Veterans Administration, Washington, D. C.: "The maximum rate for VA loans is going to stay at 4 per cent, of that I am sure. No money for VA loans is not true—VA loans are being made every day and we expect to see a gradual improvement. In the first two months of this year the VA got appraisal requests for proposed construction on 20,000 units, an increase of 40 per cent. One out of 4 or 5 VA loans depended on Fanny May, so we will, it is true, see the effects of the withdrawal. Prospects are good for continued high savings. Savings will exert more pressure on investments and it will help VA loans."

There were questions after every session. As a sample, here's a part of how it went after the discussion of "The Mortgage Prospects for 1952":

Comment by D. L. Treadway, Investors Diversified Services, Inc., Dallas: "Frankly I'm as confused as the little boy who dropped his chewing gum in the hen house."

MBA President Aubrey M. Costa: "Well, let's see about the VA loan as far as this group is concerned. How many correspondents here can sell a VA loan at par—let's see a show of hands. *(No hands.)*

Query by Moderator John F. Austin, Jr., to Norman H. Nelson: "Well, Mr. Investor, how do you feel about this VA loan matter . . . ?"

Nelson: "We're buying one, two or three VAs out of every 20 loans we buy—we use a quota system. We are paying 98 for 20 years—97½ for longer."

Brockbank: "Out on the West Coast I found 96 . . . the farther you get from New York, the bigger the discount. In some Eastern cities, it's 99, sometimes par."

Austin: "And there has been a weakening in the market in recent weeks. . . ."

Richards: "As to Fanny May out of the market, it should not have too great an effect on FHA. Recently only about 11 per cent of its portfolio was FHA, mostly the old 603s. . . ."

President Costa: "What we face is widely different conditions in different areas of the country; money is just not as available in some parts of the country as in others."

Moderator Austin (to Brockbank): "Now, Mr. Builder, tell us how we as mortgage lenders can improve mortgage financing. We want to know what we ought to do."

Brockbank: "I have said that the builders will build the houses if we get the financing but I cannot tell you how you can make your financing operation go. That is your field; I do not have the answer as to where improvement can be made."

And, as at all conventions, a new administration bows out and another takes over. H. A. Crabb, H. A. Crabb & Co. of Houston, was elected president for the 1952-1953 year to succeed Alvin E. Soniat of J. E. Foster & Son of Fort Worth, widely applauded for a good job at the Texas helm. J. W. Jones of Jones-West Mortgage Co., Dallas, and G. R. Swantner, G. R. Swantner Investment Corp. of Corpus Christi, were named first and second vice presidents—that's

Top, one of the Texas luncheons and, right, one of the cocktail affairs on the Galvez terrace preceding the luncheons. Below, group at the Buccaneer dinner closing the Convention and, below, some of the Texas officers again, the Wests, Mr. Swantner, the Soniats, Crabbs and Joneses.

two instead of the three Texas MBA customarily elects. That resulted from a change in by-laws which committee chairman A. W. Henderson proposed at the annual meeting. Reason: Texas MBA thought it might have been a little top heavy on the vice president side and could get along with two. Nominated by committee chairman J. D. Ansley were these for directors for terms expiring in 1955: John F. Austin, Jr., T. J. Bettes Co., Houston; E. P. Bennett, Massachusetts Mutual Life Insurance Co., Dallas; Ancel E. Greene, Ancel E. Greene & Co. Ltd., Waco; O. P. Lockhart, O. P. Lockhart Co., Austin; W. Cecil Sisson, W. Cecil Sisson Mortgage Co., Houston. And re-elected with considerable enthusiasm for secretary and treasurer for the new year was J. DuVal West of Jones-West Mortgage Co. of Dallas, who has had a big hand in the success of these Texas MBA affairs and has had some valuable assistance himself from Jones-West's own Ruth Cooper.

With Soniat joining the ranks of past presidents, this advisory board went to 15, just five fewer than the MBA Past Presidents Advisory Council and there has also been only three fewer Texas conventions as against MBA's. They include Fred L. Flynn, J. D. Ansley, D. L. Treadway, T. A. Robinson, Jr., A. H. Cadwallader, Jr., Donald C. Fitch, J. E. Foster, Jr., A. R. Cline, T. A. Blakeley, Aubrey M. Costa, C. G. Benham, W. A. McKinley, O. M. Murray and A. Y. Creager. Missing this year and sincerely mourned by every Texan and every mortgage man who ever knew him was Frank Wolff of San Antonio, whose untimely passing occurred the day before the Convention opening. He, too, had headed Texas MBA, had sat on MBA's board and was a leader in progressive thought in the mortgage field.

The past presidents were recognized this year with plaques attesting to their service to the Association. And next year an outstanding member of the Association will, for the first time,

receive an award of recognition, similar to MBA's annual award. Donald C. Fitch made the announcement at the annual meeting. It is being established by J. E. Foster, Jr., in tribute to his father, one of the state's outstanding real estate and mortgage men. It will consist of a plaque to which a name will be added every year and passed along from one recipient to another as the award is made. In addition will go a gold watch for the member honored.

So that about does it for the 36th annual Texas MBA Convention. It's a safe bet that the 37th—no date and place yet—will be another unforgettable experience for those lucky enough to get in on it.

ROBERT KISTLER NEW GREATER MIAMI HEAD

Robert W. Kistler of the C. W. Kistler Company has been elected president of the Greater Miami MBA, D. R. Mead of the D. R. Mead & Company, Miami Beach, was named vice president and William Randol of National Title Insurance Company was elected secretary and treasurer. New directors include Stanley P. Fosgate, Lon Worth Crow Company, J. Dudley Johnson, R. K. Cooper, Inc. and J. A. Henderson of City Mortgage & Loan Company.

ORVILLE GORE NAMED IOWA MBA PRESIDENT

Orville Gore, assistant vice president of Iowa-Des Moines National Bank, Des Moines, was elected president of the Iowa MBA.

Gore succeeds William E. Hey, Davenport.

M. N. Baird, Des Moines, and R. T. Lindeberg, Fort Dodge, were named vice president and secretary treasurer, respectively.

DETROIT MBA

(Continued from page 37)

ers. The 1 per cent allowance, even though because it was in lieu of certain other originating charges it did not increase the lender's income by the full point, effected an additional profit incentive. The 60%—$7,500 guaranty built in an added element of strength, as did the establishment of minimum construction requirements."

Harry M. Steffey, assistant Michigan FHA state director, explaining the causes of processing delays for which lenders are responsible, cited the chief one as a tendency to send in the papers after the CRV has expired.

George A. Bremer, Washington, FHA Zone Commissioner, D. M. Irwin, in charge of Regulation X in the Detroit Branch of the Federal Reserve Bank and George W. Zinky, Michigan State FHA Director, also spoke during the day's sessions.

Arthur F. Bassett, president of the Detroit MBA, presided and James E. Meredith was chairman of the committee which set up the program.

—HAROLD HALLETT

GREAT DEBATE ABOUT RATE

(Continued from page 35)

restricted governments is now approximately 2.70 which is still 50 basis points below the net yield cited as typical for the GI loan portfolios of secondary market investors.

"The very recent decline in the yields on outstanding government bond issues of intermediate maturity is even more encouraging. Since GI loans are amortized monthly and since a considerable volume of repayments in full prior to maturity can be expected, we believe that the average life of GI loan investments is in the 8 to 10 year range. Consequently, a comparison with government bonds of 7 to 10 years maturity would seem to measure more accurately the relative investment attraction of the GI 4 per cent loan.

"Since the beginning of the year, the yields on the two bank-restricted issues of 1959-1962—which amount to more than $8.5 billion outstanding—has fallen from 2.62 to a little over 2.40 currently. We recognize that the sharp fall in yields on the two issues reflects the market anticipation of the higher prices which will result when commercial banks become eligible bidders for the two issues.

"No one, of course, can be certain of the trend in bond prices and yields during the remainder of 1952. But barring some change of major proportions in Treasury financing policy—and such a change does not appear probable in view of present and expected money market conditions—we believe that lenders will tend to view VA guaranteed 4 per cent loans with more favor as surpluses of investable funds continue to accumulate.

"Let me ask the following questions of the industry to which I cannot find satisfactory answers.

"Granted that the GI 4 per cent rate is not as high as the lending industry would like to see, why is it that large secondary market investors such as insurance companies will not take any substantial numbers of GI 4 per cent loans despite the fact that their average portfolio yield is still somewhat lower than the net yield obtainable from the GI 4 per cent loan?

"How sound is the assertion we hear on all sides that the sole question is one of relative yields, when the defenders of the GI loan have gone to great pains to emphasize the intrinsic merits of the guaranteed loan which compensate greatly for its lower relative yield?

"If relative net yield is the sole question at issue, how do we explain the reports reaching us that the mar-

ket is relatively good for blocks of GI 4 per cent loans available for immediate delivery, but the market for future delivery is characterized by substantial discounts? Does this not indicate that many investors are now becoming faced with the concrete reality of mounting funds which can not find profitable investment except in GI 4 per cent loans?"

And HHFA Administrator Raymond M. Foley joined Richards and King to make it a united front against any possibility of an increase. Speaking at the Detroit MBA Spring Clinic and then at MBA's own Clinic in Seattle, he said:

"We have taken the position that FHA's 4¼ per cent rate of interest ought to be effective. There are multiplying signs that it will be, as we view it. The lower VA rate will still present a problem in many areas. There is presently no indication that either rate will be changed."

But the Association emphasized again and again the principles upon which its contention for a year has been based, namely that to break the log jam in the VA and, to an extent, in the FHA markets, these rates ought to be increased. An effective rate should be made. How much? That question was not brought to front but as an indication of the feeling in one part of the country, Moderator William A. Clarke asked the Seattle Clinic audience of more than 250 if a quarter of one per cent would do the trick. Four or five thought that it would. The rest were sure that it would take a half to do the job for VAs.

In New York, and again in Seattle and Los Angeles, President Costa pressed the cause:

"These rates should be increased so that private investors will again be attracted to the government programs. An increase in these rates to match those now obtainable from corporate securities will produce funds from private sources to complete the present defense housing program and provide opportunities for veterans to purchase homes. Present FHA and VA rates are not now effective because they are not competitive with rates which investors can secure in other types of investments—and large investors have a responsibility to invest policyholders' and depositors' funds on the most advantageous terms they can.

"An increase in rates can easily be accomplished by action of government officials. No new legislation is required. So far, they have offered no proposal for ending the stalemate that has existed in the FHA and VA mortgage markets for more than a year, apparently preferring to wait for a change in the market. There is no evidence that money conditions are likely to ease within this important period of getting the defense housing program underway. The problem that exists today is as urgent as any before the country.

"In addition to the general rate increases, the present defense housing loans should be changed so that the interest rate on the debentures, which are exchanged by FHA in case of foreclosure, should be increased from their present 2½ per cent to a rate which would assure their sale at par. In addition, the present waste provisions of these loans should be improved since many of the properties to be built under this program are in remote places.

"The only possible alternative for making these programs work is an increased appropriation from congress for FNMA for further purchases of FHA and VA loans or more direct loans by the Veterans Administration or advance commitments for defense housing loans.

"These measures are highly inflationary and place a further burden on the federal budget, a step which should be avoided at all costs.

"If the federal agencies continue adamant in their present stand not to increase these rates, there is the strongest possibility that a clamor will develop for more direct government lending in the home building field. This would be entirely unnecessary since actually there are ample private funds available—but at the present unrealistic rates which the government has set, these funds will continue to seek a more profitable return in other investment media. Managers of these funds—the large life insurance companies, trust funds, savings banks, etc., would be derelict in their duty if they did not take such a view because they have a responsibility to their depositors and policyholders to do the best investment job possible.

"In these times, with taxes at an all-time high and with the federal government more deeply in debt than ever before, it would be an economic mistake of unparalleled magnitude for any federal funds to come into the home financing field when there are ample private funds available."

NOT VERY SERIOUS

Liza had worked from dawn to dusk ever since her wedding, while her husband, Mose, as far as anyone could see, hadn't moved a muscle.

"Liza," asked her mistress one day, "how can you put up with such a lazy, good-for-nothing man?"

"Well, ma'am," replied Liza, "it's this way. I makes the livin', and Mose makes the livin' worth while."

Bill: Why did you fire that gorgeous secretary you had?

Ed: She couldn't spell—kept asking me how to spell every other word when she took dictation.

Bill: And you couldn't stand the interruptions?

Ed: Oh, I didn't mind the interruptions—I just didn't have time to look up all those words.

"A year ago I bought a cow that was supposed to have held the county record for blessed events and nothing has happened."

"Somebody must have given you a bum steer."

Dad to Small Son: "It's none of your business how I first met your mother. But I can tell you one thing: it certainly cured me of whistling."

Three young ladies were talking about the vagaries of mankind, and their ability to put up with same. "I like clubs," said one. "I've been a member of a perfectly wonderful automobile club for some time. It's marvelous. You can call them night or day and they send up a capable, courteous, intelligent man."

"But Elsie," purred one of the sisters, "you have no car."

"I know," says Elsie, "But you should have seen the wonderful service I was getting—till they found out."—*Investment Dealers Digest.*